

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this notice (the "Prospectus"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE BONDS DESCRIBED IN THE PROSPECTUS (THE "BONDS") IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE BONDS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED BELOW) EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. IN ORDER TO BE ELIGIBLE TO READ THE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A "U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A "U.S. PERSON").

WITHIN THE UNITED KINGDOM, THE PROSPECTUS MAY NOT BE PASSED ON EXCEPT TO INVESTMENT PROFESSIONALS OR OTHER PERSONS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED) DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that you have understood and agreed to the terms set out in this Prospectus and you are not a U.S. Person or acting for the account or benefit of a U.S. Person and the electronic mail address that you have given to us and to which this email has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and that you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and an arranger or any affiliate of an arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by an arranger or such affiliate on behalf of the issuer in such jurisdiction.

Recipients of the Prospectus who intend to subscribe or purchase any of the Bonds are reminded that any subscription or purchase may only be made on the basis of information contained in the Prospectus in combination with any the relevant drawdown prospectus or final terms (if applicable). The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer (as defined below).

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently no Dealer, nor any person who controls the Dealer, nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from the Issuer.



High Speed Rail Finance (1) PLC

(a public limited company incorporated in England and Wales with registered no. 08346271)

£5,000,000,000

Multicurrency Programme for the Issuance of Bonds

High Speed Rail Finance (1) PLC (the “**Issuer**”) has authorised the establishment of a multicurrency programme for the issuance of a single class of Bonds designated as the Bonds (the “**Programme**”). There is no provision under the Programme for the issuance of other classes of Bonds.

Application has been made to the Financial Services Authority (the “**FSA**”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds issued under the Programme during the period of twelve months hereof to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Bonds issued under the Programme during the period of twelve months hereof to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Regulated Market**”). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the “**Markets in Financial Instruments Directive**”). This Prospectus comprises a base prospectus for the purposes of EU Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in the Relevant Member State) (the “**Prospectus Directive**”).

The Bonds may be issued, on a continuing basis, to one or more of the Dealers specified under “*Transaction Parties*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer or in respect of which subscriptions will be procured by more than one Dealer, be to all Dealers agreeing to subscribe for such Bonds or to procure subscriptions for such Bonds, as the case may be.

Bonds issued under the Programme have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States. The Bonds may be offered, sold or delivered only outside the United States to persons who are not “U.S. Persons” as defined in Regulation S under the Securities Act (“Regulation S”) (each, a “U.S. Person”) in offshore transactions in reliance on Regulation S under the Securities Act. Each purchaser of the Bonds in making its purchase will be deemed to have made certain acknowledgements, representations and agreements (see “Subscription and Sale” in this Prospectus).

See “*Risk Factors*” to read about certain factors that prospective investors should consider before buying any of the Bonds.

Dealers

BNP PARIBAS

Lloyds Bank

The Royal Bank of Scotland

National Australia Bank Limited

Scotiabank

Base Prospectus dated 25 January 2013

Under the Programme, the Issuer may, subject to all applicable legal and regulatory requirements, from time to time issue Bonds in bearer or registered form (respectively "**Bearer Bonds**" and "**Registered Bonds**"). Copies of the final terms for each Tranche of Bonds (the "**Final Terms**") will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the "**Bond Trustee**"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent.

Bonds issued under the Programme shall comprise a single class (the "**Bonds**"). Bonds will be issued in series on each Issue Date (each a "**Series**"). The Bonds may comprise one or more tranches (each a "**Tranche**") with each Tranche pertaining to, among other things, the currency, interest rate and maturity date of the relevant Tranche. Each Tranche may be zero-coupon, fixed rate, floating rate, index-linked or instalment Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws).

The maximum aggregate nominal amount of all Bonds from time to time outstanding under the Programme will not exceed £5,000,000,000 (or its equivalent in other currencies calculated as described in this Prospectus) unless increased from time to time by the Issuer.

Details of the aggregate principal amount, interest (if any) payable, the issue price and any other conditions not contained in this Prospectus, which are applicable to each Tranche of each Series of Bonds will be set forth in a set of Final Terms, or in a separate prospectus specific to such Tranche (a "**Drawdown Prospectus**"), see "*Final Terms and Drawdown Prospectuses*" below. In the case of a Tranche of Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus, unless the context requires otherwise. In the case of Bonds to be admitted to the Official List, the Final Terms will be delivered to the FSA on or before the relevant date of issue of the Bonds of such Tranche.

Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw-Hill Companies ("**S&P**") and Fitch Ratings Ltd ("**Fitch**" and together with S&P, the "**Rating Agencies**") and any further or replacement rating agency appointed by the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

Each of S&P and Fitch are established in the European Union and are registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**").

If any withholding or deduction for or on account of tax is applicable to the Bonds, payments on the Bonds will be made subject to such withholding or deduction, without the Issuer being obliged to pay any additional amounts in consequence.

In the case of Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination shall be EUR100,000 or not less than the equivalent of EUR100,000 in any other currency as at the date of issue of such Bonds.

If issued under the relevant Final Terms, Bonds that are Bearer Bonds may be represented initially by one or more temporary global Bonds (each a "**Temporary Global Bond**") (which may be held either in new global Bond form or classic global Bond form), without interest coupons or principal receipts, which will be deposited with a common depository (in the case of Temporary Global Bonds in classic global Bond form) or a common safekeeper (in the case of Temporary Global Bonds in new global Bond form) for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Issue Date of such Tranche. Each such Temporary Global Bond will be exchangeable for a permanent global Bond (each a "**Permanent Global Bond**") or definitive Bonds in bearer form as specified in the relevant Final Terms following the expiration of 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership and as may be required by U.S. tax laws and regulations, as described in the section "*Forms of the Bonds*". Bearer Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, the Bearer Bonds may not be offered, sold or delivered within the United States or to United States persons.

If issued under the relevant Final Terms, Bonds that are Registered Bonds will be represented on issue by beneficial interests in one or more global certificates (each a "**Regulation S Global Bond**" and together with the Temporary Global Bonds and Permanent Global Bonds the "**Global Bonds**" and each a "**Global Bond**"), in fully registered form, without interest coupons or principal receipts attached, which will be deposited with, and registered in the name of, a common depository (where not held under the New Safekeeping Structure) or a common safekeeper (where held under the New Safekeeping Structure) for Euroclear and Clearstream, Luxembourg. Ownership interests in the Regulation S Global Bonds will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Bonds in definitive, certificated and fully registered form will be issued only in the limited circumstances described in this Prospectus. In each case, purchasers and transferees of Bonds will be deemed to have made certain representations and agreements. See "*Subscription and Sale*" below.

IMPORTANT NOTICES

This Prospectus is being distributed only to, and is directed only at, persons who (i) are outside the UK or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “**relevant persons**”). Neither this Prospectus, nor any of its contents, may be acted upon or relied upon by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances imply that the information contained in this Prospectus concerning the Issuer or the Obligors at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct or that there has been no adverse change in the financial position of the Issuer or the Obligors as of any time subsequent to the date indicated in the document containing such information. None of the Dealers, the Bond Trustee, the HS1 Security Trustee, the Issuer Security Trustee or any of the Hedge Counterparties, the Original Initial ACF Lenders, the Agents, the Liquidity Facility Providers or the Account Bank undertakes to review the financial condition or affairs of any of the Issuer and the Obligors during the life of the Programme or the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Bonds of any information coming to their attention.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any member of the Security Group, the Dealers, the Bond Trustee, the Issuer Security Trustee or the HS1 Security Trustee that any recipient of this Prospectus should purchase any of the Bonds issued under the Programme.

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

Certain Tranches of Bonds issued in NGN form or under the NSS (each as defined in “*Form of the Notes*” below) may be held in a manner which will allow Eurosystem eligibility. This simply means that the Bonds are intended upon issue to be delivered to one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Bonds and the other financing arrangements described in this Prospectus to be entered into by the Issuer will be obligations solely of the Issuer.

In connection with the issue of any Tranche of Bonds, one or more relevant Dealers (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager(s)) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

If you are in any doubt about the contents of this Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other financial advisor. It should be remembered that the price of securities and the income from them can go down as well as up.

Any individual intending to invest in any investment described in this Prospectus should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus or any applicable Final Terms;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets;
- understand the nature of the Bonds and the impact of any regulations which may affect their investment in the Bonds; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent Bonds are legal investments for it, Bonds can be used as security for indebtedness and other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

All references in this Prospectus to “pounds”, “sterling”, “£” or “GBP” are to the lawful currency of the UK, all references to “\$”, “U.S.\$”, “U.S. dollars”, “dollars” and “USD” are to the lawful currency of the United States of America, references to “C\$” and “Canadian dollars” are to the lawful currency of Canada, and references to “€”, “euro” or “EUR” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

Forward-Looking Statements

This Prospectus contains various forward-looking statements regarding events and trends that speak only as of the date hereof and are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented in this Prospectus. When used in this Prospectus, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the Issuer and its management and the Obligors and their management, are intended to identify such forward-looking statements. The Issuer and the Obligors do not undertake any obligation publicly to release the result of any revisions to

these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events unless, as a result of such event or circumstance, the Issuer is required under applicable law to publish a supplementary prospectus after the date hereof.

Responsibility Statements

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Obligors which, according to the particular nature of the Issuer, the Obligors and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus and in any Final Terms which complete this Prospectus for each Tranche of Bonds issued hereunder. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

HS1 Limited (“**HS1**”) accepts responsibility for the information set out in the sections headed “*Risk Factors – Commercial and Business Risks*”, “*Risk Factors – Regulatory Risks*”, “*Risk Factors – Financing Risks*”, “*Business of HS1*”, “*HS1*”, “*Holdco*” and “*Regulatory Framework and the Project Documents*” (the “**HS1 Information**”). To the best of the knowledge and belief of HS1 (having taken all reasonable care to ensure that such is the case), the HS1 Information is in accordance with the facts and does not omit anything which would render the HS1 Information inaccurate or misleading. HS1 does not accept responsibility for any other information contained in this Prospectus. Save for the HS1 Information (on the basis described above), HS1 has not separately verified the information contained in this Prospectus. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by HS1 as to the accuracy or completeness of any information contained in this Prospectus (other than the HS1 Information) or any other information supplied in connection with the Programme or the distribution of any Bonds issued under the Programme.

High Speed Rail Finance PLC (“**HSRF**”) accepts responsibility for the information set out in the sections headed “*HSRF*” and “*Summary of the Finance Documents – Initial PP Notes*” (the “**HSRF Information**”). To the best of the knowledge and belief of HSRF (having taken all reasonable care to ensure that such is the case), the HSRF Information is in accordance with the facts and does not omit anything which would render the HSRF Information inaccurate or misleading. HSRF does not accept responsibility for any other information contained in this Prospectus. Save for the HSRF Information (on the basis described above), HSRF has not separately verified the information contained in this Prospectus. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by HSRF as to the accuracy or completeness of any information contained in this Prospectus (other than the HSRF Information) or any other information supplied in connection with the Programme or the distribution of any Bonds issued under the Programme.

The Issuer has accurately reproduced the information contained in the section entitled “*Description of the Initial Liquidity Facility Providers*” (the “**ILFP Information**”) from information provided to it by the Initial Liquidity Facility Providers but it has not independently verified such information. So far as the Issuer is aware and is able to ascertain from information published by the Initial Liquidity Facility Providers, no facts have been omitted which would render the ILFP Information inaccurate or misleading.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the issue of the Bonds, any member of the Security Group, or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Security Group, the HS1 Security Trustee, the Bond Trustee, the Issuer Security Trustee, the directors of the Issuer, the Dealers, any of the Hedge Counterparties, the Original Initial ACF Finance Parties, the Agents, the Liquidity Facility Providers or the Account Bank. Neither the delivery of this Prospectus nor any offering or sale of Bonds made in connection herewith shall, under

any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or any member of the Security Group since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This Prospectus does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

Save for the Issuer, HS1 and HSRF which have only verified the information for which they specifically accept responsibility as described in the preceding paragraphs (other than the ILFP Information), no other party has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Dealers, the Bond Trustee, the Issuer Security Trustee, the HS1 Security Trustee, any of the Hedge Counterparties, the Original Initial ACF Finance Parties, the Agents, the Liquidity Facility Providers or the Account Bank as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds or their distribution. The statements made in this paragraph are without prejudice to the responsibilities of the Issuer. Each person receiving this Prospectus acknowledges that such person has not relied on the Dealers, the Bond Trustee, the HS1 Security Trustee, the Issuer Security Trustee, any of the Hedge Counterparties, the Original Initial ACF Finance Parties, the Agents, the Liquidity Facility Providers or the Account Bank to review the financial condition or affairs of any of the Issuer or the Obligors, nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

None of the Issuer, the Obligors, the Dealers, the Bond Trustee, the Issuer Security Trustee, the HS1 Security Trustee or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a "securitisation" for the purposes of the CRD and the application of Article 122a to any such transaction) in any jurisdiction or by any regulatory authority. If the regulatory treatment of an investment in the Bonds is relevant to an investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the "*Risk factors – Issuer and Bond Considerations – Changes to the risk weighted asset framework*" section of this Prospectus for further information on Article 122a.

Supplementary Prospectus

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Regulated Market of any issue of Bonds, that, if there shall occur between the time when this Prospectus is approved and the final closing of any offer of Bonds to the public, or as the case may be, the time when trading on the regulated market begins, any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the FSA such number of copies of such supplement hereto or replacement prospectus as may be required by the UK Listing Authority and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents and in respect of Registered Bonds, the Registrar and the Transfer Agent.

Each of the Issuer and the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in "*Subscription and Sale*") to comply with section 87G of the Financial Services and Markets Act 2000 ("**FSMA**").

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as so modified or amended, inaccurate or misleading, in any material respect, the Issuer

shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds.

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Regulated Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

Final Terms and Drawdown Prospectuses

In this section the expression “**necessary information**” means, in relation to any Tranche of Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Obligors and of the rights attaching to the Bonds. In relation to the different types of Bonds which may be issued under the Programme, the Issuer has included in this Prospectus all of the necessary information except for information relating to the Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus. For a Tranche of Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Prospectus and must be read in conjunction with this Prospectus. The terms and conditions of the Bonds as set out herein (the “**Conditions**”) as completed by Part A of the relevant Final Terms are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of Final Terms.

The Conditions as completed by the relevant Drawdown Prospectus are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Issuer and the relevant Tranche(s) of Bonds.

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OVERVIEW

The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

HS1 and the HS1 Concession	HS1 is the operator of the high speed rail link running approximately 109 kilometres between St Pancras International station in London and the Channel Tunnel portal in Kent (also known as the Channel Tunnel Rail Link) (“ High Speed 1 ”) pursuant to a Concession Agreement for High Speed 1 dated 14 August 2009, as amended on 16 July 2010 between the Secretary of State for Transport (the “ Secretary of State ”) and HS1 (the “ Concession Agreement ”).
Regulated Business	HS1 operates within a regulatory framework which is effected through a combination of contractual rights (through the Concession Agreement and other contracts) and statutory duties (through primary and secondary legislation) that are in each case conferred on the Office of Rail Regulation (the “ ORR ”) and/or the Secretary of State. The enforcement procedure that the ORR must follow is set out in the Concession Agreement. The ORR also performs an economic regulatory function under the Concession Agreement, agreeing or determining aspects of the track access charges that HS1 can levy from train operating companies (“ TOCs ”).
Sources of revenue	HS1’s primary source of revenue is the charges that it levies for granting access to High Speed 1 to TOCs which wish to operate rolling stock and rail services on High Speed 1 (principally passenger TOCs). In addition, HS1 receives income from the unregulated parts of its business (including the rental of retail space and the sale of advertising space (predominately at St Pancras International station (“ St Pancras International ”)) and car parking income (predominately at Ebbsfleet International station (“ Ebbsfleet International ”))). Part of this revenue will be used to service the HS1 Senior Debt. As at the Establishment Date, HS1 has granted certain TOCs, Eurostar International Limited (“ EIL ”) and London & South Eastern Railways Limited (“ LSER ”) access to High Speed 1. EIL operates international passenger rail services and LSER operates domestic passenger rail services as part of the South Eastern passenger rail franchise on High Speed 1. The framework track access agreements (“ FTAAs ”) entered into with each of EIL and LSER on 14 August 2009 and amended, in the case of EIL, on 17 February 2011 (the “ EIL FTAA ”) and, in the case of LSER, on 17 August 2011 (the “ LSER FTAA ”) set out the terms on which HS1 has granted the TOCs access to High Speed 1. HS1 has also granted the TOCs access to St Pancras International, Ebbsfleet International, Stratford International station (“ Stratford ”) (in the case of LSER only) and Ashford International station (“ Ashford ”) (in the case of EIL only) pursuant to separate station access agreements (each a “ Station Access Agreement ”). DB Schenker operates night freight services over High Speed 1 between London and Poland.
Key suppliers	HS1 has entered into an operator agreement with Network Rail (High Speed) Limited (“ NR(HS) ”) dated 27 June 2002 (as amended and restated on 28 September 2003, 14 May 2010, 12 December 2010 and 3 April 2012) pursuant to which NR(HS) has agreed to provide operational, maintenance, renewal and replacement services in respect of that part of High Speed 1 which relates to High Speed 1 infrastructure (as amended, restated or supplemented from time to time) (the “ Operator Agreement ”). HS1 has also appointed NR(HS) to be the operator of St Pancras International, Stratford International and Ebbsfleet International under

certain Station Concession Agreements.

HS1 has the benefit of various master agreements and distribution agreements with UK Power Networks Services (Contracting) Limited and UK Power Network Services Holdings Limited (the “**UKPN Parties**”) which govern (in the case of the master agreements) the removal, replacement, modification, extension, relocation and variation of the electricity distribution systems and (in the case of the distribution agreements) the operation, maintenance, repair and renewal, as well as payment and performance obligations, relating to each electricity distribution system for High Speed 1 (the “**UKPN Agreements**”).

Ownership

The ultimate shareholders of HS1 are OMERS Administration Corporation (“**OMERS**”) (as to 50 per cent.) and the Ontario Teachers’ Pension Plan Board (“**OTPP**”) (as to 50 per cent.). There is a shareholders’ agreement in place governing the exercise of the rights in HS1. HS1 was purchased by the shareholders on 1 November 2010.

The Programme

The Issuer is establishing the Programme to raise finance in the capital markets (i) to enable the refinancing of existing indebtedness; (ii) towards fees, costs, expenses, stamp, registration and other taxes incurred in connection with the above; and (iii) for the general corporate purposes of the Obligors. The Bonds issued from the Programme will form part of HS1’s capital structure which will also incorporate revolving bank facilities, medium term bank debt, private placement debt and risk management hedging.

The Issuer

The Issuer has been incorporated as a special purpose company for the purpose of issuing asset backed securities under the Programme described in this Prospectus. For further details of the Issuer, see the section entitled “*The Issuer*”.

The Initial IBLA and Use of Proceeds

On the Initial Issue Date, HS1 and the Issuer will enter into an issuer/borrower loan agreement (the “**Initial IBLA**”) pursuant to which the Issuer will on-lend the proceeds of the Bonds issued on the Initial Issue Date to HS1 by way of an advance.

HS1 will use the proceeds of the Advances made under the Initial IBLA (a) to refinance HS1’s existing indebtedness; (b) towards fees, costs, expenses, stamp, registration and other taxes incurred in connection with the above; and (c) for the general corporate purposes of the Obligors.

On or prior to any further Issue Date (excluding the Initial Issue Date) in which the Issuer issues Bonds, the proceeds of which are intended to be on-lent to HS1, which are not fungible with an existing Tranche of Bonds, then a new IBLA will be entered into by the Issuer and HS1 on substantially the same terms as set out above (these subsequent IBLAs along with the Initial IBLA being the “**IBLAs**” and each an “**IBLA**”).

The maturity date, redemption premium, interest rates and payment dates with respect to each advance made by the Issuer to HS1 under an IBLA (an “**Advance**”) including any sub-advances (“**Sub-Advance**”) will correspond to the terms of the corresponding Tranche of Bonds and any related Issuer Hedging Agreement.

The Issuer’s obligations to repay principal of and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from HS1 under each IBLA and payments received under any

related Issuer Hedging Agreement. The Obligors' assets which secure HS1's obligations to pay under the IBLAs, have characteristics that demonstrate capacity to produce funds to service any payments due and payable under the IBLAs and consequently, on the Bonds.

Failure of HS1 to repay an Advance on the maturity date in respect of such IBLA will be a Loan Event of Default, although it will not, of itself, constitute a Bond Event of Default (as defined below).

For further details of the Initial IBLA, see the section entitled "*Summary of the Finance Documents – Initial IBLA*".

The Initial Authorised Credit Facilities Agreement

On the Establishment Date, HS1 will enter into a senior loan agreement (the "**Initial Authorised Credit Facilities Agreement**") with, amongst others, the Initial ACF Arrangers and the Original Initial ACF Lenders. The facilities provided under the Initial Authorised Credit Facilities Agreement will be: a senior term facility A of up to £230,000,000, a senior term facility B of up to £85,000,000 (together the "**Senior Term Facilities**") and a working capital revolving credit facility of up to £65,000,000 (the "**WC Facility**").

HS1 will use the sums advanced under the Senior Term Facilities (a) to refinance the Existing Indebtedness; (b) towards fees, costs, expenses and stamp, registration and other taxes incurred in connection with the above; and (c) for the general corporate purposes of the Obligors.

HS1 will use the sums advanced under the WC Facility to fund the general corporate working capital requirements of the Obligors.

For further details of the Senior Term Facilities, see the section entitled "*Summary of the Finance Documents – Initial Authorised Credit Facilities Agreement*".

Private Placement Notes

On 29 October 2012, HSRF issued (i) U.S.\$530,000,000 3.79% Series A1 Guaranteed Senior Secured Fixed Rate Notes due 30 March 2028 (the "**Series A1 Notes**"), (ii) U.S.\$20,000,000 3.79% Series A2 Guaranteed Senior Secured Fixed Rate Notes due 30 March 2028 (the "**Series A2 Notes**" and, together with the Series A1 Notes, the "**Series A Notes**"), (iii) £70,000,000 4.21% Series B1 Guaranteed Senior Secured Fixed Rate Notes due 30 March 2031 (the "**Series B1 Notes**"), (iv) £47,000,000 4.21% Series B2 Guaranteed Senior Secured Fixed Rate Notes due 30 March 2031 (the "**Series B2 Notes**" and, together with Series B1 Notes, the "**Series B Notes**"), (v) £58,000,000 Series C Guaranteed Senior Secured Floating Rate Notes due 30 March 2031 (the "**Series C Notes**") and (vi) £50,000,000 4.72% Series D Guaranteed Senior Secured Fixed Rate Notes due 30 March 2036 (the "**Series D Notes**" and, together with the Series A Notes, the Series B Notes and the Series C Notes, and any other privately placed notes issued by HSRF from time to time under the note purchase agreement dated 29 October 2012 (as amended and restated from time to time, the "**Initial PP Note Purchase Agreement**") between Holdco, HS1, HSRF and the purchasers listed in Schedule A thereto (the "**Initial PP Noteholders**"), the "**Initial PP Notes**") which were distributed by way of a private placement. The Initial PP Notes were issued in minimum denominations of U.S.\$200,000. HSRF may, subject to the terms of the CTA and the STID, issue further private placement notes in future (together with the Initial PP Notes, the "**PP Notes**") which will also be Authorised Credit Facilities. The PP Notes, together with their related hedging arrangements, will be subject to the terms of the CTA and the STID (as

defined below).

For further details of the Initial PP Notes and the Initial PP Note Purchase Agreement, see the section entitled “*Summary of the Finance Documents – Initial PP Notes*”.

CTA

On the Establishment Date, each of the Obligors and the HS1 Secured Creditors will enter into a common terms agreement (the “**CTA**”). The CTA will set out the representations, covenants (positive, negative and financial), Trigger Events and Loan Events of Default which will apply to the HS1 Senior Debt including any Authorised Credit Facility.

“**Authorised Credit Facility**” means any facility agreement entered into by HS1 and/or any other Obligor for HS1 Senior Debt as permitted by the terms of the CTA the providers of which are parties to or have acceded to the STID and the CTA, and includes, without limitation, the Initial IBLA and all future IBLAs, the WC Facility, the Senior Term Facilities, the Liquidity Facility, the HS1 Hedging Agreements, the PP Notes, each PP Note Purchase Agreement and (A) any fee letter or commitment letter entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities and (B) any other document (not being a Common Document) that has been entered into in connection with the foregoing facilities or agreements or the transactions contemplated thereby that has been designated as a document that should be deemed to be an Authorised Credit Facility for the purposes of this definition by the parties thereto (including at least one Obligor).

For further details of the CTA, see the section entitled “*Summary of the Common Documents – Common Terms Agreement*”.

Security Trust and Intercreditor Deed

On the Establishment Date, each of the Obligors and the HS1 Secured Creditors will enter into a security trust and intercreditor deed (the “**STID**”). The STID will set out the intercreditor arrangements in respect of the Security Group (the “**Intercreditor Arrangements**”). The Intercreditor Arrangements will bind each of the HS1 Secured Creditors and each of the Obligors.

The purpose of the Intercreditor Arrangements is to regulate, among other things, (a) the claims of the HS1 Secured Creditors; (b) the exercise, acceleration and enforcement of rights by the HS1 Secured Creditors; (c) the rights of the HS1 Secured Creditors to instruct the HS1 Security Trustee; (d) the Entrenched Rights and the Reserved Matters of the HS1 Secured Creditors and (e) the giving of consents and waivers and the making of modifications to the Common Documents.

The Intercreditor Arrangements also provide for the ranking in point of payment of the claims of the HS1 Secured Creditors both before and after the delivery of a Loan Acceleration Notice and for the subordination of all claims of Subordinated Intragroup Creditors or claims among the Security Group.

For further details of the STID, see the section entitled “*Summary of the Common Documents – Security Trust and Intercreditor Deed*”.

Principal Security for HS1’s Obligations

The HS1 Senior Debt will be secured pursuant to a security agreement to be dated the Establishment Date (the “**HS1 Security Agreement**”) between, among others, the Obligors and Lloyds TSB Bank plc (in its capacity as security trustee for the HS1 Secured Creditors (as defined

below) (the “**HS1 Security Trustee**”).

Additionally, Holdco will provide a guarantee of HS1’s and HSRF’s obligations under the HS1 Senior Debt (the “**Holdco Guarantee**”) and HS1 and HSRF will each provide a guarantee of the other’s obligations under the HS1 Senior Debt.

For further details of the security for the obligations of the Obligors under the Finance Documents, see the section entitled “*Summary of the Finance Documents – HS1 Security Agreement*”.

Financing Direct Agreements

HS1 and the HS1 Security Trustee have or will have entered into agreements (the “**Financing Direct Agreements**”) with other relevant third parties pursuant to which such third parties will grant, *inter alia*, certain rights to the HS1 Security Trustee with respect to underlying contracts between such third parties and HS1, in each case, as amended, novated or supplemented from time to time:

- (a) the Secretary of State in respect of the Concession Agreement, the Domestic Underpinning Agreement and the HS1 Leases;
- (b) Network Rail and NRIL in respect of the Operator Agreement;
- (c) the UKPN Parties in respect of the power distribution arrangements;
- (d) LSER in respect of the LSER Track Access Agreement and related Station Access Agreements; and
- (e) EIL in respect of the EIL Track Access Agreement and related Station Access Agreements.

For further details of the Financing Direct Agreements, see the section entitled “*Overview of the Project Documents*”.

Hedging

Pursuant to the CTA, the Security Group and the Issuer will be subject to a hedging policy (the “**Hedging Policy**”) such that (unless the Hedging Policy requires or permits otherwise) at all times HS1 and the Issuer are hedged as regards (i) interest rates and inflation, so that a minimum of 70 per cent. of the total outstanding Relevant Debt is hedged pursuant to a Hedging Transaction and, at all times, the aggregate notional amount of Hedging Transactions does not exceed 110 per cent. of the total Relevant Debt and (ii) all currency risk in respect of foreign currency denominated debt instruments.

For the purposes of the above, “**Relevant Debt**” means the principal amount outstanding under the Initial Authorised Credit Facilities Agreement, each IBLA, and the PP Notes or any debt under any equivalent Authorised Credit Facility (other than any WC Facility, Liquidity Facility and the HS1 Hedging Agreements) from time to time.

For further details of the Hedging Policy, see the section entitled “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy*”.

The Hedging Policy does not apply to any Treasury Transaction entered into by members of the Security Group in the ordinary course of business and for non-speculative purposes where the counterparty does not accede

to the STID.

For further details of the Treasury Transactions, see the section entitled “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy*”.

Liquidity Facility

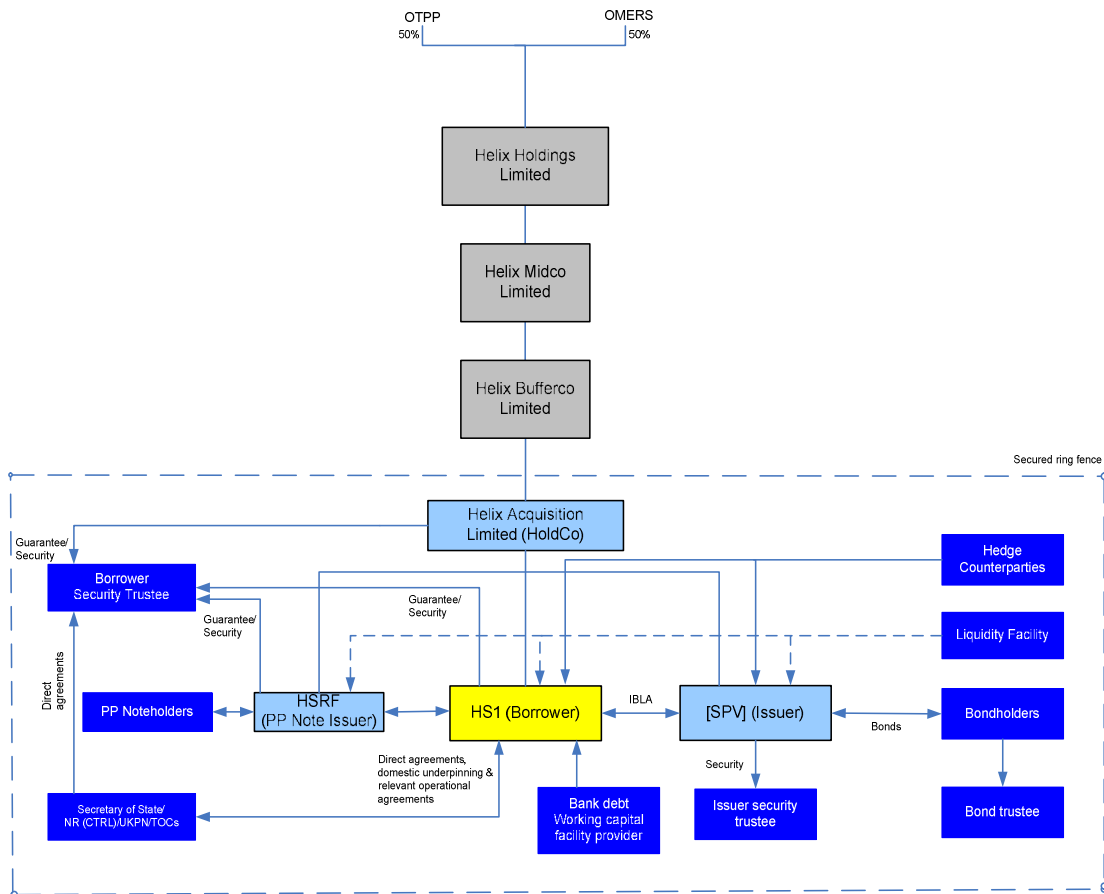
HS1 and the Issuer will have the benefit of a liquidity facility provided pursuant to a liquidity facility agreement (the “**Liquidity Facility Agreement**”) with certain lenders (each a “**Liquidity Facility Provider**”) and together the “**Liquidity Facility Providers**”).

The facility provided pursuant to the Liquidity Facility Agreement will provide liquidity support in respect of scheduled payments of amortisation, interest and fee amounts payable in respect of the Senior Term Facilities, Bonds, the PP Notes, Hedging Agreements and certain other payments due to the HS1 Secured Creditors and the Issuer Secured Creditors.

Governing law

The Common Documents and the Issuer Transaction Documents will be governed by English law.

TRANSACTION STRUCTURE DIAGRAM



KEY CHARACTERISTICS OF THE PROGRAMME

Issuer	High Speed Rail Finance (1) plc, a public company incorporated in England and Wales with limited liability (registration number 08346271) having its registered office at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD . The shares of the Issuer are 100 per cent. legally and beneficially owned by Holdco. The Issuer is tax resident in the United Kingdom.
HS1 / the Borrower	HS1 Limited, a private company incorporated in England and Wales with limited liability (registration number 03539665), having its registered office at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD . The shares of HS1 are 100 per cent. legally and beneficially owned by Holdco. HS1 is tax resident in the United Kingdom.
HSRF	High Speed Rail Finance PLC, a public company incorporated in England and Wales with limited liability (registration number 08196684) having its registered office at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD . The shares of HSRF are 100 per cent. legally and beneficially owned by Holdco. HSRF is tax resident in the United Kingdom.
Holdco	Helix Acquisition Limited, a private company incorporated in England and Wales with limited liability (registration number 07428859) having its registered office at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD . The shares of Holdco are 100 per cent. legally and beneficially owned by Helix Bufferco Limited. Holdco is tax resident in the United Kingdom.
Security Group	Holdco, HS1, HSRF and any other Subsidiary of any member of the Security Group (other than the Issuer) which accedes, inter alia, to the CTA and the STID in accordance with the terms of the Transaction Documents (the “ Security Group ”);
Security Group Agent	HS1 (the “ Security Group Agent ”)
Guarantors of HS1 Senior Debt	On and from the Establishment Date, each Obligor will guarantee the obligations of each other Obligor under the HS1 Senior Debt to the HS1 Security Trustee. None of the Obligors will guarantee the obligations of the Issuer under the Bonds.
Obligors	HS1, HSRF and Holdco and any other person who accedes to, inter alia, the CTA and the STID as an Obligor in accordance with the terms of the Transaction Documents (each an “ Obligor ” and together the “ Obligors ”).
Dealers	BNP Paribas, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, National Australia Bank Limited and Scotiabank Europe plc.
Bondholders	Holders of the Bonds issued by the Issuer from time to time (each a “ Bondholder ” and together the “ Bondholders ”).
Original Initial ACF Lenders	The original lenders under the Senior Term Facilities and the WC Facility (the “ Original Initial ACF Lenders ”).
Initial ACF Agent	Lloyds TSB Bank plc.
PP Noteholders	Those institutions which hold PP Notes issued by the HSRF from time to time. (the “ PP Noteholders ”) (and will include, on the Establishment Date, the

Initial PP Noteholders)

Authorised Credit Providers	The “ Authorised Credit Providers ” will comprise lenders or other providers of credit or financial accommodation under any Authorised Credit Facility (and will include, on or around the Establishment Date, the Issuer, the Original Initial ACF Finance Parties, the Initial PP Noteholders and the HS1 Hedge Counterparties).
HS1 Secured Creditors	The secured creditors of the Obligors (the “ HS1 Secured Creditors ”) will comprise the HS1 Security Trustee (in its own capacity and on behalf of the other HS1 Secured Creditors), the Issuer, the Original Initial ACF Finance Parties, each HS1 Hedge Counterparty, each Liquidity Facility Provider, the Liquidity Facility Agent, the Account Bank, any replacement Cash Manager who is not a member of the Security Group, the PP Noteholders, each other Authorised Credit Provider, each PP Note Secured Creditor Representative, any Additional HS1 Secured Creditors and any other entity which provides funding to the Obligors and accedes to the STID and CTA from time to time, and “ HS1 Secured Creditor ” means any one of them.
Issuer Secured Creditors	The secured creditors of the Issuer (the “ Issuer Secured Creditors ”) will comprise the Bondholders, the Couponholders, the Bond Trustee (for itself and on behalf of the Bondholders), the Issuer Security Trustee (for itself and on behalf of the other Issuer Secured Creditors), the Issuer Hedge Counterparties, the Account Bank, the Principal Paying Agent, the Agent Bank, the Transfer Agent, the Registrar, the Calculation Agent, the Cash Manager and the Liquidity Facility Providers and the Issuer Corporate Services Provider.
HS1 Security Trustee	Lloyds TSB Bank plc (or any successor trustee appointed pursuant to terms of the HS1 Security Agreement, the STID and any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to an HS1 Secured Creditor in respect of the HS1 Senior Debt (the “ HS1 Security Documents ”)) will act as security trustee for itself and on behalf of the HS1 Secured Creditors and will hold, and will be entitled to enforce, the security provided by the Obligors subject to the terms of the HS1 Security Documents.
Bond Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the Bond Trust Deed (as defined below)) will act as Bond Trustee for and on behalf of the Bondholders.
Issuer Security Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the Issuer Deed of Charge (as defined below)) will act as security trustee (the “ Issuer Security Trustee ”) for itself and on behalf of the Issuer Secured Creditors and will hold, and will be entitled to enforce, the Issuer Security subject to the terms of the Issuer Deed of Charge.
Hedge Counterparties	Each Issuer Hedge Counterparty or, as the context may require, each HS1 Hedge Counterparty (each a “ Hedge Counterparty ”, and together the “ Hedge Counterparties ”).
HS1 Hedge Counterparties	Any counterparty to any HS1 Hedging Agreement (each an “ HS1 Hedge Counterparty ” and together the “ HS1 Hedge Counterparties ”) from time to time. An “ HS1 Hedging Agreement ” means the ISDA Master Agreement, the schedule thereto and each confirmation, in each case to be entered into pursuant to the Hedging Policy between HS1 and a HS1 Hedge Counterparty

and the transactions effected thereunder.

Issuer Hedge Counterparties	<p>Any counterparty to any Issuer Hedging Agreement (each an “Issuer Hedge Counterparty” and together the “Issuer Hedge Counterparties”) from time to time.</p> <p>An “Issuer Hedging Agreement” means the ISDA Master Agreement, the schedule thereto and each confirmation, in each case to be entered into pursuant to the Hedging Policy between the Issuer and an Issuer Hedge Counterparty and the transactions effected thereunder.</p>
Account Bank	The Royal Bank of Scotland plc (or any successor account bank appointed pursuant to the Account Bank Agreement) (the “ Account Bank ”).
Cash Manager	HS1 or, following acceleration of the HS1 Senior Debt, the HS1 Security Trustee.
Liquidity Facility Provider(s)	The lenders under the Liquidity Facility Agreement from time to time.
Registrar	Deutsche Bank Luxembourg S.A. (or any successor registrar appointed pursuant to the Issuer Transaction Documents) will act as registrar and will provide certain registrar services to the Issuer in respect of any Bonds issued in registered form.
Transfer Agent	Deutsche Bank Luxembourg S.A. (or any successor transfer agent appointed pursuant to the Transaction Documents) will act as transfer agent and will provide certain transfer agency services to the Issuer in respect of any Bonds issued in registered form.
Principal Paying Agents	Deutsche Bank AG, London Branch will act as principal paying agent (or any successor principal paying agent appointed pursuant to the Agency Agreement) (the “ Principal Paying Agent ”) and, together with any other paying agent appointed by the Issuer from time to time (each a “ Paying Agent ”), will provide certain issue and paying agency services to the Issuer in respect of the Bonds.
Agent Bank	Deutsche Bank AG, London Branch (or any successor agent bank appointed pursuant to the Agency Agreement) will act as agent bank (the “ Agent Bank ”) in respect of the Bonds.
Rating Agencies	S&P and Fitch.
Programme Size:	Up to £5,000,000,000 (or its equivalent in other currencies) aggregate nominal amount of Bonds outstanding at any time as increased from time to time by the Issuer.
Purpose:	<ul style="list-style-type: none">(a) To refinance the Existing Indebtedness (as defined below).(b) Towards fees, costs, expenses, stamp, registration and other taxes incurred in connection with the matters described in paragraph (a) above.(c) General corporate purposes of the Obligors.
Issuance in Series and Tranches:	Bonds issued under the Programme will form a single class and be issued in Series on each Issue Date. Each Series may comprise one or more Tranches issued on different issue dates. Bonds issued after the initial issuance may be fungible with the Bonds issued on or after the Initial Issue Date or may be

issued on different terms in accordance with the Bond Trust Deed.

On each Issue Date, the Issuer will issue the Tranches of Bonds set out in the Final Terms published on the relevant Issue Date.

Certain Restrictions:	<p>Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the restrictions applicable at the date of this Prospectus. See “<i>Subscription and Sale</i>”.</p> <p>Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “<i>Subscription and Sale</i>”.</p>
Currencies:	<p>Sterling, euro, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.</p>
Final Terms or Drawdown Prospectus	<p>Bonds issued under the Programme may be issued either (a) pursuant to this Prospectus and associated Final Terms, or (b) pursuant to a standalone Drawdown Prospectus.</p>
Denomination of Bonds:	<p>Bonds will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements applicable to the currency of the relevant Tranche of Bonds. Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC) as amended, shall have a minimum specified denomination of £100,000, €100,000, U.S.\$200,000 or not less than the equivalent of €100,000 in any other currency as at the date of issue of such Bonds.</p>
Redenomination:	<p>The applicable Final Terms may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (<i>European Economic and Monetary Union</i>).</p>
Maturities:	<p>Subject to any applicable law or regulation applicable to the Issuer or the relevant specified currency, the Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer.</p> <p>In certain circumstances, where Bonds have a maturity of less than one year, such Bonds will be subject to limitations to ensure the Issuer complies with section 19 of FSMA. For further details please see the United Kingdom selling restrictions as set out in the “<i>Subscription and Sale</i>” section of this Prospectus and the Final Terms for any particular Tranche of Bonds.</p>
Issue Price:	<p>Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as set out in the relevant Final Terms.</p>
Interest:	<p>Bonds will, unless otherwise specified in the relevant Final Terms, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Final Terms) on the Principal Amount Outstanding (as defined in the Conditions) of such Bonds. Interest will accrue at a fixed or floating rate (plus, in the case of Index-Linked Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Final Terms, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be</p>

	agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms.
Form and Status of Bonds	<p>The Bonds will constitute unconditional obligations of the Issuer. Bonds will rank <i>pari passu</i> without preference or priority in point of security amongst themselves and will be issued in bearer or registered form.</p> <p>Bonds issued in registered form shall not be exchangeable for Bonds issued in bearer form.</p> <p>The Bonds represent the right of the holders of such Bonds to receive interest (where applicable) and principal payments from the Issuer in accordance with the terms and conditions of the Bonds and the Bond Trust Deed entered into by the Issuer and the Bond Trustee in connection with the Programme (the “Bond Trust Deed”).</p>
Fixed Rate Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Bonds:	<p>Floating Rate Bonds will bear interest at a rate determined on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service plus the applicable margin (if any).</p> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Tranche of Floating Rate Bonds.</p>
Index-Linked Bonds:	Payments of principal or interest in respect of Index-Linked Bonds will be calculated by reference to the UK Retail Price Index.
Other provisions in relation to Floating Rate Bonds and Index-Linked Interest Bonds:	The Floating Rate Bonds and Index-Linked Bonds may also have a maximum interest rate, a minimum interest rate, a step-up in the interest rate after a certain date (or any combination of the foregoing).
Zero Coupon Bonds:	Zero Coupon Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Interest Periods and Payment Dates:	Such interest periods and interest payment dates as the Issuer and the relevant Dealer may agree in relation to a particular Tranche of Bonds.
Scheduled Redemption:	As set out in Condition 8(a) (<i>Scheduled Redemption</i>), unless previously redeemed or cancelled, each Tranche of Bonds will be redeemed on the Final Maturity Date. However, if a Scheduled Redemption Date (falling prior to the Final Maturity Date) is specified in respect of a Tranche of Bonds in the applicable Final Terms and they are not redeemed on the Scheduled Redemption Date, such Bonds will thereafter accrue interest at a floating rate. If, however, the Bonds are not redeemed in full by their Final Maturity Date, there will be a Bond Event of Default.
Final Redemption:	As set out in Condition 8(b) (<i>Final Redemption</i>), if a Tranche of Bonds has not previously been redeemed in full, such Tranche shall be finally redeemed at its Principal Amount Outstanding (in the case of Index-Linked Bonds as adjusted in accordance with Condition 7(b) (<i>Application of the Index Ratio</i>)) plus accrued interest on the Final Maturity Date as specified in the applicable Final Terms.
Optional Redemption	As set out in Condition 8(d) (<i>Optional Redemption</i>), the Issuer may (prior to the Final Maturity Date (as defined in the Conditions)) redeem the Bonds in whole or in part (but on a <i>pro rata</i> basis only) upon giving not more than 60 nor fewer than 15 days’ prior written notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders on any Interest Payment Date at their

Redemption Amount (as defined in the Conditions).

**Redemption for
Taxation Reasons**

As more particularly set out in Condition 8(e)(ii) (*Redemption for Taxation Reasons and Illegality*), if the Issuer satisfies the Bond Trustee:

- (a) that the Issuer would become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the laws or regulations of the UK or any political subdivision thereof, or any other authority thereof (“**Taxes**”) by reason of any change in or amendment to such laws or regulations or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction);
- (b) that, by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date, the Issuer is no longer a “securitisation company” (as defined in the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (the “**Regulations**”) and is otherwise unable to claim a tax treatment in the United Kingdom that would prevent a material increase in the tax liabilities of the Issuer compared to the treatment previously provided to the Issuer under such Regulations;
- (c) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that HS1 would on the next Interest Payment Date be required to make any withholding or deduction for or on account of any Taxes from payments in respect of an IBLA;
- (d) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that an Issuer Hedge Counterparty would be entitled to terminate a Hedging Agreement in accordance with its terms as a result of the Issuer or the Issuer Hedge Counterparty being required to make any withholding or deduction for or on account of any Taxes from payments in respect of an Issuer Hedging Agreement; or
- (e) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that it has or will become unlawful for the Issuer to perform any of its obligations under any IBLA or to fund or to maintain its participation in the Advances,

the Issuer may, upon giving not more than 15 nor fewer than 5 Business Days’ prior written notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the affected Tranche of Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Index-Linked Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)).

**Redemption for
Illegality Reasons**

As more particularly set out in Condition 8(e)(ii) (*Redemption for Taxation Reasons and Illegality*), by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that has or will have the result that it will become unlawful for the Issuer to perform any of its obligations under any IBLA or to fund or to maintain its participation in the IBLA Loans, the Issuer may, upon giving not more than 15 nor fewer than 5 Business Days' prior written notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the affected Tranche of Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Index-Linked Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)).

**Redemption for
Index Events**

As more particularly set out in Condition 8(e)(i) (*Redemption for Index Events*), upon the occurrence of any Index Event, the Issuer may, upon giving not more than 15 nor fewer than 5 Business Days' prior written notice to the Bond Trustee, the Issuer Secured Creditors and the holders of the Index-Linked Bonds, redeem all (but not some only) of the Index-Linked Bonds of any Tranche of Bonds on any Interest Payment Date at the Principal Amount Outstanding (adjusted for indexation) plus accrued but unpaid interest.

**Early Redemption
on Prepayment of
IBLAs:**

As set out in Condition 8(f) (*Early Redemption on Prepayment of an IBLA*), if:

- (a) HS1 gives notice to the Issuer under an IBLA that it intends to prepay all or part of any advance made under such IBLA or HS1 is required to prepay all or part of any advance made under such IBLA; and
- (b) in each case, such advance was funded by the Issuer from the proceeds of a Tranche of Bonds,

the Issuer shall, upon giving not more than 10 nor fewer than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders, (where such advance is being prepaid in whole) redeem all of the relevant Tranche of Bonds or (where part only of such advance is being prepaid) the proportion of the relevant Tranche of Bonds which the proposed prepayment amount bears to the amount of the relevant advance at the applicable amount (as set out in Condition 8(f) (*Early Redemption on Prepayment of an IBLA*)).

**Early redemption
following Loan
Enforcement
Notice:**

As set out in Condition 8(g) (*Early redemption following Loan Enforcement Notice*) if the Issuer receives (or is to receive) any moneys from HS1 following the service of a Loan Enforcement Notice in repayment of all or any part of an Advance, the Issuer shall, upon giving not more than 10 nor less than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders apply such moneys to redeem the then outstanding Bonds (corresponding to the Advance under an IBLA which is prepaid at their Principal Amount Outstanding (adjusted for indexation in the case of Index-Linked Bonds) plus accrued but unpaid interest on the next Interest Payment Date (or, if sooner, Final Maturity Date).

Taxation:

All payments in respect of Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will not be obliged to pay additional amounts in respect of any such withholding or deduction.

Issuer Security:

The obligations of the Issuer are secured pursuant to the Issuer Deed of Charge. The Issuer will grant first ranking security over, among other things, all of its rights, title and interest in the Issuer Transaction Documents (other than the Dealership Agreement and each Subscription Agreement), the Issuer Accounts

and its Cash Equivalent Investments together with first ranking security over all of its property, undertaking and assets which are not subject to such fixed security, in each case, in favour of the Issuer Security Trustee to be held on trust for the benefit of the Issuer Secured Creditors.

Covenants: The representations, warranties, covenants and events of default which will apply to the Bonds are set out in the Bond Trust Deed (see “*Summary of the Issuer Transaction Documents-Bond Trust Deed*”).

Distribution: Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Bond Purchases: As set out in Condition 8(i) (*Purchase of Bonds*), each of the Issuer, a nominee of the Issuer, Holdco or a Subsidiary of Holdco (“**Holdco Subsidiary**”) may, provided that no Loan Event of Default or Bond Event of Default has occurred and is continuing, purchase Bonds (together with all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto) in the open market or otherwise (but not, for the avoidance of doubt in any initial distribution of Bonds) at any price (without any obligation to surrender such Bonds for cancellation other than as set out in Condition 8(k) (*Cancellation*)) and, to the extent that such Bonds have not been cancelled, may resell them in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

Any Bond purchased by the Issuer, a nominee of the Issuer, Holdco or a Holdco Subsidiary shall, for so long as it is held by it (or on its behalf), cease to have voting rights and be excluded from any quorum or voting calculations set out in the Conditions.

Listing: It is expected that the Bonds issued under the Programme will be admitted to the Official List and admitted to trading on the Regulated Market.

Ratings: The ratings assigned to the Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The ratings of a particular Tranche of Bonds will be specified in the relevant Final Terms.

The initial Bonds will carry a preliminary rating which will be confirmed by the Rating Agencies shortly after the Initial Issue Date. S&P and Fitch are established in the European Union and are registered under the CRA Regulation. As such, S&P and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of the Security Group. A rating may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.

Bond Events of Default: Each of the following events of default constitutes a “**Bond Event of Default**”:

- (a) **non payment:** default is made by the Issuer for a period of 3 Business Days in the payment of interest or principal on any Tranche of the Bonds when due in accordance with the Conditions;
- (b) **breach of other obligations:** default is made by the Issuer in the performance or observance of any other obligation, condition, provision, representation or warranty binding upon or made by it under the Bonds or the Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement) (other than any obligation whose breach would give rise to the Bond Event of Default provided for in Condition 11(a)(i) (*Non payment*)) and, except where in the opinion of the Bond Trustee that such default is not capable of remedy, such default continues

for a period of 30 Business Days;

- (c) **Insolvency Event:** an Insolvency Event occurs in relation to the Issuer; or
- (d) **unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement) (as defined in the Conditions).

**Selling
Restrictions:**

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Bonds. See “*Subscription and Sale*” below.

**Investor
Information:**

HS1, as Security Group Agent, is required to produce an Investor Report semi-annually on each Reporting Date which will be posted on the Designated Website. HS1 is also required to publish annual audited accounts and an auditors’ report along with semi-annual unaudited accounts and compliance certificates.

RISK FACTORS

The following sets out certain aspects of the Project Documents, the Finance Documents, the Issuer Transaction Documents and the activities of HS1 about which prospective Bondholders should be aware. Prospective investors should carefully consider the following risk factors and the other information contained in this Prospectus before making an investment decision. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of the Issuer, HS1 or the other Obligors and could lead to, among other things:

- (a) a Loan Event of Default;*
- (b) a Trigger Event; and/or*
- (c) a Bond Event of Default.*

This section of the Prospectus describes all material risks that are known to the Obligors and the Issuer as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective Bondholders should read the detailed information set out elsewhere in this Prospectus prior to making any investment decision. The risks described below are not the only ones faced by the Obligors. Additional risks not presently known to the Obligors or which the Obligors currently believe to be immaterial may also adversely affect its business. In the event of any material adverse impact of one of or more of the risks described herein, the value of the Bonds could decline, and the Issuer may not be able to pay all or part of the interest or principal on the Bonds and investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this Prospectus and their personal circumstances.

The risks described in this “Risk Factors” section have been grouped as follows:

- (a) risks that arise out of the business of the ownership and operation of its railway infrastructure and/or its obligations under the Project Documents;*
- (b) risks that are reflective of the regulatory environment within which HS1 operates; and*
- (c) financial, tax or legally related risks, including those that arise as a consequence of the terms and structure of the Transaction Documents.*

In addition, whilst the various structural elements described in this Prospectus are intended to lessen some of the risks discussed below for the Bondholders, there can be no assurance that these measures will ensure that the Bondholders of any Series or Tranche receive payment of interest or repayment of principal from the Issuer on a timely basis or at all.

IMPACT OF RISKS ON REPAYMENT OF THE BONDS

Negative impact on HS1’s costs, revenues and/or cash flow

Where any of the risks described in this section of the Prospectus occurs which has, as the case may be, a negative impact on HS1’s costs, revenues and/or cash flow, HS1 will be required to meet such additional costs and/or such shortfall from internal sources, or consider other ways in which those costs and/or such shortfall can be met where internal funds are not available. Where HS1 is unable to meet such additional costs and/or such shortfall from either internal sources or alternative means, HS1 may be unable to meet its liabilities, including those to the Issuer under each IBLA and as a result, the Issuer may not be able to pay interest on, or repay principal of, the Bonds.

Termination of the Concession Agreement

Where any of the risks described in this section of the Prospectus occurs which could lead to termination of the Concession Agreement and so loss by HS1 of the concession, whether as a result of enforcement action taken by the ORR or for some other specified termination event in the Concession

Agreement, it would mean that HS1 would not be able to earn further revenues and so meet its liabilities, including those to the Issuer under each IBLA which would mean the Issuer would not be able to pay interest on and principal of the Bonds.

COMMERCIAL AND BUSINESS RISKS

Risk of High Speed 1 being unavailable to train operators

HS1's revenue is mostly derived from the track access charges it levies on train operators in return for granting them access to High Speed 1 in order that they may operate their rail services. Disruption that makes High Speed 1 unavailable and so prevents or restricts the operation of rail services could, depending on its cause, extent and where it occurs, lead to HS1 suffering a loss of this revenue.

High Speed 1 could become unavailable for use or impossible to access as a result of a number of circumstances both within and outside of the control of HS1. HS1 is liable to train operators under the track access Agreements both for the disruption it causes or its contractors (principally NR(HS)) cause and for certain disruptive events that occur on the route but are outside its control, namely terrorism, force majeure or vandalism. HS1 is not liable to train operators under those agreements for disruption that occurs off High Speed 1 but impacts availability of or access to High Speed 1 (for example, the closure of the Channel Tunnel due to fire) or for disruption train operators cause themselves.

As train operators pre-pay the majority of access charges to HS1, HS1 is, generally speaking, insulated in the short term from the negative financial consequences of disruption, but where disruption does occur and HS1 is liable, HS1 must rebate the affected train operator as part of a wash up arrangement at the end of the relevant timetable (usually 12 months in duration) in which that disruption occurred. In such circumstances, HS1 will receive much less track access income than it would have anticipated for the services that were rendered incapable of operation due to such disruption.

When faced with an extended period of unavailability of High Speed 1, an affected train operator might, on requisite notice, cancel the access to High Speed 1 that it has reserved in order to operate rail services (known as the capacity). In these circumstances the train operator would not be required to pay access charges in respect of that capacity. See "*Regulatory Framework and the Project Documents – Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Access Charges*" for an explanation of how access charges are levied. The cancellation of capacity will lead to HS1 losing revenue unless it can procure that another train operator utilises the lost capacity.

Disruption that gives rise to persistent unavailability of, or inability to access High Speed 1, could impact the affected train operator's ability to pay any ongoing track access charges to HS1 for capacity that has not been cancelled, because the train operator's own income depends in part on the quality of service it can provide to its passengers/freight customers and the availability of alternative rail and other transport services. Any non-payment of access charges by train operators to HS1 due to an inability or unwillingness to pay would mean a loss of revenue for HS1.

Risk of falls in demand for and operation of rail services on High Speed 1

The international rail services operated on High Speed 1 are subject to substantial competition from other modes of transportation. Air travel is the main source of competition. While the international high speed passenger services on High Speed 1 have certain advantages for passengers travelling between city centres, air travel can be more price competitive particularly for journeys beyond city centres. HS1 also faces some limited competition from cheaper services offered by ferry, coach and other rail operators.

The volume of international passengers travelling on High Speed 1 could be negatively impacted by changes in border control regulation or staffing limitations, including immigration and customs, to the extent that these cause delay and increase overall journey time. The availability of new trains with increased seat capacity may also impact the number of services being run by train operators, and, therefore, the level of access charge income.

In relation to domestic rail services, the geographical areas served by High Speed 1 are also served by the Classic Network which offers cheaper fares (although journey times on High Speed 1 are approximately 50% shorter than on the Classic Network, depending on the final destination).

Any reductions in the volume of passengers using train services on High Speed 1, whether because of competition from alternative transport modes or domestic passenger services on the Classic Network, or because of extraneous factors affecting the quality of the passenger experience could result in a reduction in the level of capacity sought by train operators and, therefore, a reduction in access charges levied by HS1 and so loss of revenue.

Sustained low Retail Prices Index

Key elements of HS1's income and costs are indexed directly or indirectly to the UK Retail Prices Index ("RPI") notably the main components of the track access charges it levies from train operators (which is specifically indexed at RPI+1.1%) and the payments to NR(HS) under the Operator Agreement (again at RPI+1.1%). There is a risk that in a period of low inflation or deflation, this would reduce the net cash flow generated by HS1.

Dependence on financial condition of train operators

Most of HS1's revenues are derived from access charges paid to it by the two passenger train operators which currently have access to High Speed 1, namely LSER and EIL. HS1 is, accordingly, exposed to the financial condition of EIL and LSER and any other train operator which operates domestic or international services on High Speed 1 in the future. Non-payment for whatever reason by train operators of access charges could lead to HS1 suffering a cash shortfall in the first instance, potentially loss of revenue and ultimately loss of business, should the reason for non-payment be the insolvency of the train operator.

HS1 can issue a notice suspending the provision of access to any train operator that fails to pay its access charges on time, but HS1 cannot suspend such access until approximately six weeks after a non-payment by the relevant train operator. Consequently, HS1 could suffer a cash flow shortfall following a non-payment and may be required to cover this shortfall from its own funds until the defaulting train operator does pay, or, in the case of a domestic train operator after April 2014, the Secretary of State is liable to make Underpinning Payments (see "*Reductions in the level of domestic services operated by LSER*" below in relation to Underpinning Payments) or procures that another train operator provides domestic passenger services and duly pays for access to High Speed 1.

In the case of the insolvency of EIL, international passenger services may cease, in which case HS1 could reallocate a proportion of access charges to any other train operators continuing to use High Speed 1, but otherwise would receive no revenues from such services unless and until a new international train operator commenced operations. In the case of the insolvency of LSER, the same principles would apply, except in addition, the Secretary of State has a statutory duty under the Railways Act to ensure, subject to limitations, continuity of domestic services in England and Wales in the event that those services are no longer provided by a train operator under the terms of a franchise agreement. It is likely, but not certain, that if LSER became insolvent, the Secretary of State would secure the transfer of its operations without a break in service or the payment of access charges.

Reduction in the level of domestic services operated by LSER and any replacement train operator

If the number of domestic services operated by LSER was reduced, HS1 would receive less track access income. Domestic services provide HS1 with more than 50% of its income. After April 2014 (which is the end of the existing track access agreement between HS1 and LSER), HS1 may be entitled to certain offsetting payments from the Secretary of State (called "**Underpinning Payments**") to compensate HS1 for any loss of track access charge income where the number of domestic services operated by any domestic train operator falls below the level of 1,024 services per week, known as the baseline of domestic passenger services.

There are certain circumstances where even though the level of services operated by LSER is below this baseline, Underpinning Payments will not be made. These are in relation to:

- (a) days where High Speed 1 is not available for use by train operators because of HS1's failure or because the Secretary of State has exercised his emergency step in rights under the Concession Agreement – see “*Regulatory Risks – Secretary of State step in and enforcement*”, below for an explanation of those rights;
- (b) circumstances where the domestic train operator is in breach of its obligations to provide services and the Secretary of State is in the process of taking action to remedy such breach; or
- (c) circumstances where the domestic train operator is in breach of its payment obligations under its track access agreement with HS1 or becomes insolvent.

No Underpinning Payments are available to HS1 prior to April 2014.

If no Underpinning Payments are payable, HS1's domestic passenger service revenue might fall below the level that it would expect to receive if domestic passenger services were operated at the baseline level.

Risk of unforeseen expenditure because of unplanned major capital works

HS1 may be required to undertake unforeseen major capital expenditure projects as a result of HS1's obligation under the Concession Agreement to renew, replace and upgrade the High Speed 1 infrastructure, which is part of its obligations under the Concession Agreement. The Concession Agreement provides for a number of arrangements that seek to manage this risk, namely, (i) HS1 is obliged to set aside part of the access charges it receives to fund future track renewals in an escrow account, (ii) the Secretary of State may decide to fund by way of grant all or part of any unforeseen capital expenditure and/or (iii) HS1 obtains consent from the ORR to levy an additional investment recovery charge on train operators to recover the costs of such expenditure. However, there is no guarantee that those escrowed funds, any grant from the Secretary of State or any additional charge (whether alone or in aggregate) will be sufficient to meet any such unforeseen capital expenditure.

Where these other potential sources of funding are insufficient, HS1 will be obliged to fund that shortfall from internal sources (to the extent available or from additional borrowings where these can be raised).

Specifically, such unforeseen capital expenditure could be required as a result of:

- (a) HS1's obligation under the Concession Agreement to carry out renewals and replacements works on High Speed 1;
- (b) determinations made by NR(HS) as the holder of the safety authorisation (which HS1 has no control over in terms of timing and cost), which include determinations in relation to day-to-day operations and maintenance requirements for the renewal and replacement of the infrastructure, and whether any additional infrastructure may be necessary; and
- (c) a change in law which has the effect of requiring an upgrade or other works in respect of the High Speed 1 infrastructure and which is not fully compensated for by the Secretary of State under the risk-sharing arrangement in the Concession Agreement – see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Government's financial support for Changes in Circumstances*” for an explanation of this risk-sharing arrangement (see “*Regulatory Risks – Adverse Change in Circumstance*” below).

Reductions in retail and other income

HS1's principal sources of non-rail income are retail concession fees and car parking income, property rental income and income from the provision of operational facilities and utilities. This income is not subject to regulatory pricing approval. Any reduction in demand for passenger services or station footfall more generally may also cause a reduction in HS1's income from these sources. While the Secretary of State has confirmed under the LSER Side Letter that he will not agree to a reduction in the level of Baseline Domestic Services for the term of the track access agreement with LSER, there is no protection offered for any diminution in these other sources of income. Should such a diminution occur, HS1 would suffer a loss of revenue. See "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The LSER Side Letter*" for an explanation of the scope of the LSER Side Letter.

Retail concession fees are driven by passenger numbers and the propensity of passengers to spend in the shops at the HS1 Stations. Levels of retail income at the HS1 Stations may also be affected by changes in the mix of domestic and international passengers, economic factors, including exchange rates, retail tenant failures and reduced competitiveness of the HS1 Station retail offering. Although retailers currently operating at HS1 Stations operate with minimum guaranteed rents, there is no certainty that leases will be renewed on the same terms if turnover levels do not exceed the levels at which the minimum guaranteed rent is currently payable. Any material failure to renew retail leases will, in the absence of HS1 being able to negotiate replacement leases with new retailers, result in HS1 suffering a loss of revenue.

HS1's retail lease income grew by 6% in Financial Year 2012 over the same period in 2011. See "*Business of HS1 – HS1 Revenues – Retail, Advertising and Car Parking*" for an overview of HS1's income in this area.

Exposure to performance and financial condition of NR(HS)

Reliance on NR(HS)'s performance under the Operator Agreement

HS1 has sub-contracted the responsibility under the Concession Agreement to operate and maintain High Speed 1 to NR(HS) under the terms of the Operator Agreement. There are a number of instances however (described below) where either NR(HS)'s obligations under the Operator Agreement are not back-to-back with HS1's obligations under the Concession Agreement, or the performance of those obligations by NR(HS) under the Operator Agreement is not included in the pre-agreed price that HS1 pays thereunder. There is a risk therefore that HS1 could either:

- (a) be put in breach of its operation and maintenance obligations under the Concession Agreement where NR(HS) fails to perform a sub-contracted obligation or where NR(HS) is not obliged to perform a Concession Agreement obligation because that obligation has not been passed on to NR(HS) under the Operator Agreement; or
- (b) have to pay NR(HS) its additional costs in order that it carries out the relevant operation and maintenance obligation and in turn ensure that HS1 remains compliant with its equivalent obligations under the Concession Agreement.

To the extent that NR(HS) is not obliged under the Operator Agreement to effect HS1's compliance with the Concession Agreement and each track access agreement which HS1 has entered into (i) HS1 would not be able to enforce against NR(HS) under the Operator Agreement whilst it would continue to be subject to enforcement risk under the Concession Agreement, and (ii) HS1 would continue to be obliged to make performance payments to train operators under their track access agreements, thereby continuing to incur costs that would not fall to NR(HS).

A breach of the Concession Agreement could lead to enforcement proceedings by the ORR, which could result in the ORR taking enforcement action against HS1. Failure to comply with the ORR's instructions constitutes a termination event permitting the Secretary of State to terminate the Concession Agreement without full compensation (see "*Regulatory Risks – Termination of the*

Concession Agreement and the other Concession Documents without compensation” below for an explanation of the Secretary of State’s rights of termination in these circumstances and the financial consequences thereof).

The instances where HS1’s Concession Agreement obligations have not been passed on to NR(HS) at all, only to a limited extent or subject to the payment by HS1 of additional sums comprise the following:

- (a) NR(HS) is relieved of liability where it is hindered or prevented from meeting the requirements under the Concession Agreement to ensure High Speed 1 meets the specified minimum operational standards by operational matters outside its control;
- (b) NR(HS) is relieved of liability where it is prevented from performing its obligations under the Operator Agreement by particular force majeure events; and
- (c) NR(HS) will comply with enforcement instructions issued by the ORR under the Concession Agreement, but only where HS1 pays NR(HS)’s additional costs incurred in complying.

Equally, if NR(HS) were to cease to be authorised to conduct railway operations (for example, as a result of failing to maintain proper safety standards), High Speed 1 would not be available to train operators until (i) NR(HS) regained the safety authorisation, or (ii) HS1 appointed a replacement operator which had the necessary authorisation in place of NR(HS) or (iii) operations were taken in-house by HS1 and HS1 obtained the safety authorisation itself. In these circumstances, HS1’s net income from train operators would be negatively impacted in respect of any period in which trains could not operate. In addition, where HS1 elects to replace NR(HS) to the extent there is any shortfall between the track access charges that HS1 could levy and the costs that any replacement operator might charge, that shortfall would have to be funded by HS1 itself.

Reliance on NR(HS)’s performance under the Station Concession Agreements

Under the terms of the Station Concession Agreements, under which NR(HS) manages and operates the HS1 Stations, HS1 does not have any right to replace NR(HS), including in circumstances where NR(HS)’s performance falls below the required standards, unless damages is not an adequate remedy or the failure is not capable of remedy. HS1 does not have recourse to NRIL under the NRIL Guarantee (the terms of which are described in *“Regulatory Framework and the Project Documents – Overview of the Project Documents – NRIL Guarantee”*) to secure NR(HS)’s compliance as this does not cover NR(HS)’s obligations under the Station Concession Agreements.

A failure to perform by NR(HS) could put HS1 in breach of the Concession Agreement, making HS1 subject to enforcement proceedings by the ORR (see *“Reliance on NR(HS)’s performance under the Operator Agreement”* above).

Exposure to performance of the UKPN Parties

In order for trains to operate on High Speed 1, power must be distributed along the route. Power is distributed by the UKPN Parties (referred to here as the power distributor) pursuant to the UKPN Agreements. HS1 is dependent on the performance of the power distributor in order to be able to comply with certain of its obligations under the Concession Agreement and its track access agreements with train operators.

If the power distributor was to fail to properly carry out its obligations under the UKPN Agreements or was unable to do so (for example, if it became insolvent), trains may be unable to operate on High Speed 1 and this could put HS1 in breach of the Concession Agreement and its track access agreements with train operators. A breach could lead to enforcement action being taken by the ORR. Failure to comply with any such order would be a termination event under the Concession Agreement permitting the Secretary of State to terminate the Concession Agreement without full compensation being payable to HS1 (see *“Regulatory Risks – Termination of the Concession Agreement and the other Concession*

Documents without compensation” below for an explanation of the Secretary of State’s rights of termination in these circumstances and the financial consequences thereof).

Potential pricing mismatches

Determination of the fixed price under the Operator Agreement

The operating and maintenance costs of HS1 are agreed with the ORR each five years and set for a period of five years. HS1 and NR(HS) may disagree about the price that NR(HS) will charge HS1 for providing the services under the Operator Agreement. Ultimately, this disagreement could lead to NR(HS) electing to terminate the Operator Agreement – see “*Overview of the Project Documents – The Operator Agreement – Payments – Fixed Price*” for an explanation of NR(HS)’s termination right in this circumstance. There can be no assurance that HS1 and NR(HS) will agree the price each time that it falls to be set.

The risk of termination of the Operator Agreement by NR(HS) has, however, been deferred until 2025 because NR(HS) does not have the right to terminate before then even where the ORR takes an alternative view which results in a lower price being charged – see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Operator Agreement – Operator’s obligations – Obligations*” for a description of these arrangements.

Where the Operator Agreement is terminated by NR(HS), any shortfall between the track access charges that HS1 could levy and the price that NR(HS) may charge HS1 would have to be funded by HS1 itself to the extent possible. See also “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Operator Agreement – Early termination – HS1 ability to perform operation and maintenance services on termination*” in relation to HS1’s ability to operate and maintain High Speed 1 following termination of the Operator Agreement.

Risk of renegotiation of fixed price under Operator Agreement

The fixed price agreed with NR(HS) may be re-negotiated in certain specified cases as specified in the Operator Agreement (some of these “re-openers” apply only until 2015) – see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Operator Agreement – Payments – Fixed Price*” for an overview of the material re-openers. If additional amounts become payable to NR(HS) in respect of any of these re-openers, HS1 would incur operations and maintenance costs which it might not be able to pass on to the train operators under their track access agreements in the short term (until the ORR next reviews the operations and maintenance element of the access charges HS1 may levy) or possibly at all if the ORR does not consider this appropriate.

If HS1 is not entitled to increase the operations and maintenance element of the access charges it levies on train operators to recover the additional amounts required by a re-opener, it would instead be required to fund unforeseen expenditure of this kind from its own resources, or failing that, it may have to consider other ways in which the additional amounts can be financed.

There are currently no price re-opener notifications from NR(HS) under the Operator Agreement.

Payment liability mismatches under sub-contracts

Payment liability mismatches in relation to NR(HS)

NR(HS)’s liability to HS1 under the Operator Agreement (and NRIL’s liability under the NRIL Guarantee) is subject to certain caps, which are not, in all cases, matched by caps on HS1’s liability to relevant counterparties. HS1’s liability to the Secretary of State under the Concession Agreement is not capped.

HS1’s performance payments to the train operators under track access agreements are also capped. However, there is a risk that such payments by HS1 may exceed the caps and exclusions in respect of NR(HS)’s equivalent reimbursement liability. In addition, NR(HS) will not be obliged to reimburse

HS1 for any payments made to the train operators which arise as a result of HS1's own acts or omissions or those of its contractors (which include the counterparties to the key service provision agreements, but exclude NR(HS)). Such a mismatch in liability could result in additional costs being incurred by HS1.

NR(HS) is also relieved from the obligation to reimburse HS1 for the performance payments which HS1 makes to the train operators where those payments are due to NR(HS)'s performance being affected by "natural disasters or phenomena". Relief is also given to NR(HS) in relation to indemnity payments in respect of all force majeure events/circumstances. If NR(HS) is affected by force majeure, therefore, HS1's net income from the train operators may decrease (while HS1 would continue to be obliged to pay NR(HS) the fixed price under the Operator Agreement), potentially giving rise to HS1 suffering a cash shortfall.

Payment liability mismatches in relation to UKPN Parties

The UKPN Parties are responsible for the maintenance and operation of the power supply network that High Speed 1 utilises, as well as the distribution of power around that network under agreements known as "**Distribution Agreements**". A loss of power to the network would render High Speed 1 inaccessible or restrict the level of accessibility that HS1 has contractually committed to, and would result in HS1 having to make performance payments to the train operators under the terms of their track access agreements and potentially loss of revenue, should the train operator cancel capacity in response.

Under the performance regime in the UKPN Agreements, the UKPN Parties' liability in respect of outage (other than power outages) and power shortfalls is not capped, although all types of outage and power shortfall are subject to certain exclusions of liability. Liability in respect of power outages affecting assets that are directly required for the commercial operation of trains on High Speed 1 is limited to approximately £500,000 in any rolling three year period. The cap in the UKPN Agreements in relation to power outages is low relative to the performance payments that HS1 may be exposed to (which are in turn capped at approximately £6.5m per annum under the track access agreements). Consequently HS1 would be exposed to that difference and suffer a shortfall in cashflow as a result. Where the cap is reached, HS1 may terminate the relevant Distribution Agreement.

The Secretary of State has the right to require HS1 to terminate or novate the UKPN Agreements to such party as the Secretary of State may direct on the termination or expiry of the Concession Agreement. The termination sum payable by HS1 under the UKPN Agreements where the Secretary of State requires termination or novation, represents a present value of future payments and therefore can vary and be quite significant. See "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Power Supply Agreements*" for a summary of the agreements that comprise the UKPN Agreements.

OTHER RISKS TO HS1'S OPERATIONS

Accidents

The railway industry is exposed to the risk of accidents, including train crashes. These accidents could (i) result in injury or loss of human life, damage to infrastructure and/or other property and short or long term closure of High Speed 1 and other railways, (ii) expose HS1 to legal claims and (iii) have a negative impact on passenger traffic levels, in turn negatively impacting the level of access charges that HS1 may levy and, therefore, its revenue.

Operational risks

The operation of a railway is a complex undertaking that is subject to a number of factors outside the control of HS1. These factors include weather conditions, variable train movements, traffic congestion and third party reliance on technical equipment. Given the nature of these factors it is not possible accurately to predict their future impact on HS1's operations from past performance but should the

occurrence of any such event continue for a significant period of time and/or have a material impact on operations, HS1's revenues would be negatively impacted.

Inability to obtain insurance

HS1 benefits from insurance cover (either which it effects itself or which is carried by its contractual counterparties) to protect against key insurable risks including terrorism, business interruption and public liability. HS1 takes credit risk on the performance of the insurance providers. The size of cover may not be adequate to meet lost income, reinstatement costs, increased expenses or other liabilities. Moreover, there can be no assurance that if insurance cover is cancelled or not renewed, replacement cover will be available at commercially reasonable rates or at all, although this has not been HS1's experience to date. See "*Business of HS1 – Insurance*" for a summary of the insurances that HS1 has in place.

HS1 had the choice of a number of possible insurance providers when it recently (November 2012) renewed its insurances. But to the extent it does not have such choice in the future, the Concession Agreement offers some protection for HS1. Where such insurances are unavailable at commercial prices and on commercial terms and the Secretary of State refuses to insure against the risks those insurances would have covered, HS1 may terminate the Concession Agreement with compensation – see "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Enforcement and termination – Grounds of termination*".

Dependency on key personnel

HS1's success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. HS1 relies on its senior management for the implementation of its strategy and its day-to-day operations. Competition in the rail industry for personnel with relevant expertise, especially at the senior management level, may be intense due to the specialised nature of the industry and the limited number of qualified individuals. HS1's failure to successfully manage its personnel needs could have a material adverse effect on HS1's business, financial condition, results of operations or prospects.

REGULATORY RISKS

Termination of the Concession Agreement and the other Concession Documents without compensation

The Concession Agreement and the other Concession Documents may be terminated by the Secretary of State without compensation upon the occurrence of certain events of default specified therein. These include the insolvency of HS1, a non-permitted change of ownership of HS1, a "particularly serious default" by HS1 in respect of certain provisions of the Concession Agreement, the unavailability of insurance as a result of an act or omission by HS1, its contractors or others for whom it is responsible and a failure by HS1 to comply with a Final Order or Provisional Order, in each case, which has not been appealed or has been upheld by court order (each an "**HS1 Default**").

HS1's business depends entirely on its being the concessionaire under the Concession Agreement. If the Secretary of State were to terminate the Concession Agreement and other Concession Documents because of the occurrence of an HS1 Default, HS1 would not have any of its existing material assets and, therefore, would be unable to earn further revenues.

Secretary of State step in and enforcement

The Secretary of State has emergency rights to "step in" under the terms of the Concession Agreement (irrespective of whether HS1 is in default) to ensure continuity of service where HS1 fails to provide (or procure the provision by NR(HS) of) the infrastructure capability required under the Concession Agreement for a period of three consecutive days or more (see "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Secretary of State step in*" for an explanation of the Secretary of State's rights to step in and the mechanics of doing so).

If the Secretary of State steps in, HS1 will lose control over the operation of High Speed 1. During any step-in period, HS1 will continue to receive the revenue generated, although it will become liable for the costs of the Secretary of State in procuring the operation of High Speed 1 and these additional costs could lead to a shortfall in available funds.

Where the Secretary of State has exercised his emergency rights to step in for an aggregated period of two months in any rolling two year period, the ORR is obliged to take enforcement action under the Concession Agreement, which if HS1 does not comply with, could lead to termination of the Concession Agreement without HS1 being fully compensated – see “*Termination of the Concession Agreement and the other Concession Documents without compensation*” below for an explanation of this conditionality to termination.

Adverse Change in Circumstance

Extraneous events or circumstances might occur during the life of the Concession Agreement that could result in a loss of revenue to HS1, increased operating costs to HS1 or require additional capital expenditure by HS1.

HS1 is protected to an extent (but not otherwise) against revenue losses, increased costs or additional capital expenditure incurred as a result of events or changes in circumstance where the particular event or change in circumstance is one:

- (a) in which HS1 shares the financial risk with the Secretary of State in the Concession Agreement (see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Government’s financial support for Changes in Circumstances*” for an account of the changes in circumstances in respect of which financial risk is shared);
- (b) which requires increased operational, maintenance and renewal costs and the ORR grants an Interim Review – see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Economic regulation – Interim Reviews*” for an explanation of Interim Reviews; and
- (c) which requires capital expenditure to effect a Renewal and Replacement and funds are available in the Renewals Escrow Account – see “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Economic Regulation*” for an explanation of the Renewals Escrow Account arrangements.

Even where the risk sharing regime referred to in paragraph (a) above applies, the financial protection available to HS1 is not totally comprehensive (except where the change in law in question is the revocation of a TSI Derogation or partial sequestration). Where that protection is not comprehensive, HS1 would be required to fund the additional operating expenses and capital expenditure that is required, but not met by the Secretary of State, subject to an overall cap on such expenditure per Control Period (£6 million indexed by RPI).

If the risk sharing regime does not apply, an Interim Review is not applied for, or granted, or there are insufficient funds in the Renewals Escrow Account, then HS1 will be required to fund or consider alternative sources of funding to meet the full costs of any additional operating expenses or capital expenditure required as a result of the relevant event or circumstance. HS1 will not be compensated for any loss of revenue.

Insufficient operations, maintenance and renewals income to recover costs

Setting the operations, maintenance and renewals charge

The operations, maintenance and renewals element of track access charges (referred to as **OMRC**) that HS1 levies from train operators to meet HS1’s operations, maintenance and renewal costs, is reviewed by the ORR every five years under a process known as a **Periodic Review**.

In conducting a Periodic Review, there is no certainty that the ORR will permit HS1 to charge train operators sufficient OMRC to fully recover HS1's actual operating, maintenance and renewal costs, since the ORR may take a different view from HS1 on the costs required by an efficient operator to operate High Speed 1. If following a Periodic Review, there is a shortfall between the OMRC HS1 is allowed to recover and the actual costs incurred, HS1 would suffer a loss and would have to use all or a portion of its other sources of funds to meet this shortfall.

This risk is reduced in respect of any Periodic Review conducted before 1 April 2025, where NR(HS) has agreed to take the risk on there being a shortfall between the actual cost for its portion of the overall OMRC costs, which represents the majority of HS1's OMRC charges. During this period, HS1 remains exposed to any shortfall in relation to non-NR(HS) operations, maintenance and renewal charges.

The same considerations described above apply in relation to any review (known as an **Interim Review**) that the ORR conducts between Periodic Reviews following a request by HS1 in response to unforeseen circumstances. Interim Reviews are conducted on the same basis as Periodic Reviews.

Recovering the operations, maintenance and renewals charge

Except for certain elements of the OMRC that are passed straight through to train operators, the charge per train per minute that makes up the rest of OMRC can be amended only:

- (a) following a Periodic Review or Interim Review; or
- (b) following a change in total number of trains that are timetabled or an individual train operator's number of trains that are timetabled, in each case of at least 4% more or less over the course of a timetable year than that timetabled for the 12 months following the last such change.

HS1 is therefore exposed until any Periodic Review or Interim Review to the risk of under-recovery of OMRC if the number of trains timetabled for a given year is reduced by up to but not more than 4%. Given this volume-based regime and the threshold at which automatic adjustments in OMRC are made thereunder, it is unlikely that a reduction of less than 4% in trains that are timetabled will be considered sufficient to entitle HS1 to seek an Interim Review of OMRC.

Any under-recovery of OMRC would require HS1 to fund the shortfall of revenues from its sources.

Mismatch between right to adjust OMRC in track access agreements and right to reduce fixed price under the Operator Agreement

HS1 has the right under the Operator Agreement to seek a downwards review of the price payable to NR(HS) under that agreement where due to circumstances outside HS1's control, there is a material and significant reduction in the scope of services on which HS1 agreed the annual fixed price, and the reduction involves a material reduction in the assets for which NR(HS) is responsible under the Operator Agreement and/or a material reduction in the number of trains running (a reduction of 4% or more in the period up to 2015).

However, there is a mismatch in language between the trigger for reopening the level of OMRC that HS1 may charge under track access agreements and the trigger for reopening the fixed price that HS1 pays NR(HS) for performing the services under the Operator Agreement. In addition, the provisions for change in track access agreements and the Operator Agreement are themselves different, with any financial adjustment being automatic under track access agreements, but subject to request, debate and possible dispute resolution under the Operator Agreement. The two regimes are therefore not entirely 'back-to-back' and this misalignment could lead to the situation where there is a reduction in OMRC without a proportionate reduction in the amount of the fixed price that HS1 pays NR(HS), leaving HS1 to fund the additional costs from internal sources, or where this was not possible, from other sources of funding.

Performance regime liability caps

Track access agreements contain a performance regime that governs the performance of HS1 in procuring access for train operators to High Speed 1 and the performance of the services train operators operate on High Speed 1. That performance regime provides for payments to be made by HS1 and the train operators and vice versa, depending on performance relative to specified benchmarks. HS1's financial liability thereunder is capped. See "*Regulatory Framework and the Project Documents – Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Performance payments*" for an explanation of the payments that apply in the track access agreements performance regime.

The ORR notes in the Criteria and Procedures that it had previously expressed concern that the caps set out in the HS1 Passenger Access Terms (incorporated by reference into track access agreements) were too low and that there was a lack of provision of arrangements to compensate train operator's for loss of revenue arising from breaches of the relevant track access agreement. The ORR indicates in expressing those concerns, that the liability caps set by HS1 were considered a minimum that the ORR would be prepared to approve and that the caps should be based on the revenue that is at risk (being the avoidable costs of not operating the service, or more narrowly, the variable charge from the service).

The provisions contained in the HS1 Passenger Access Terms that establish the scope of any Periodic Review by the ORR, explicitly exclude a review of the performance liability caps specified in those terms. However, the ORR's stated position in the Criteria and Procedures in relation to liability caps may ultimately lead to a requirement for higher liability caps in current and future track access agreements where a train operator proposes a higher cap as part of the application to seek ORR approval of any such track access agreement. Should higher caps be introduced into track access agreements and the performance of High Speed 1 be sufficiently poor, HS1 will be exposed to higher liability in respect of performance payments under those agreements than would currently be the case. HS1 does not consider there to be any need to make provision for this uncertain contingent exposure.

HS1's actual performance thus far has been significantly below these liability caps. Against a total annual cap of approximately £6.5 million, HS1 has incurred penalties of £0.5 million in the financial year 2012 and £0.4 million in the year-to-date to the end of November 2012 for financial year 2013.

Other regulatory risks

Prepayments a potential barrier to new entrants

The ORR could determine that train operators which are new entrants to operating services on High Speed 1 pay access charges to HS1 in arrear, as opposed to pre paying access charges, as all existing train operators currently do. If the ORR does determine that future applications for track access payments are to be made to HS1 in arrear, this could increase HS1's exposure to credit risk which, if realised, could lead to non-payment of access charges by those train operators, giving rise to HS1 incurring a loss of revenue.

Judicial review

There is a risk that decisions of the ORR in exercising its regulatory functions could be challenged under the principles commonly referred to under the heading "judicial review". If such a challenge occurred and was successful, the relevant exercise by the ORR of its regulatory function would have to be revisited, potentially giving rise to delay and the exercise of that function in a different way from the way in which it was exercised prior to challenge. Any delay or revisited decision could give rise to additional costs and/or HS1 suffering a loss of revenue.

Commitments / obligations in relation to St Pancras International Station

HS1's compliance with the SPI Commitment may be challenged and consequently referred to the expert determination process by the monitoring trustee – see "*Regulatory Framework and the Project Documents – Overview of the Project Documents – Station Access Agreements and other station*

arrangements – Commitments / obligations in relation to St Pancras International Station” for a summary of the SPI Commitment. If HS1 does not agree with the expert opinion of the monitoring trustee, the matter may be referred to the appeal authority (currently the European Commission). Until the ORR confirms that it will assume the role of appeal authority, there is a risk that any binding expert opinion of the monitoring trustee and any decision of the European Commission may take an unexpected course, or be inconsistent with the approach of the ORR in relation to similar obligations arising under the Access Regulations and competition law. Such a decision could have adverse consequences for HS1’s financial position and therefore the interests of Bondholders.

Competition law compliance risk

As the sole high speed infrastructure provider in the UK, HS1 could be exposed to remedial action and a fine of up to 10% of its turnover plus damages claims if it were found to have abused a dominant position. This is because it is subject to additional restrictions on its commercial behaviour under UK and EU competition law which prohibit the abuse of a dominant position. The impact of this could affect HS1’s reputation and result in incurring unforeseen costs in settling any fine and/or damages and complying with any requisite remedial action.

Environmental, health and safety and planning obligations

HS1’s business is affected by a wide variety of EU and UK environmental, health and safety and planning laws and requirements. HS1’s existing operations may be impacted by a number of environmental and planning factors, including those involving: noise; discharges and surface water drainage; flooding; waste handling, management and disposal; climate change; and energy use and efficiency. Compliance with present or future environmental, health and safety and planning requirements may be costly and time consuming and interfere with HS1’s existing activities and operations. Failure to comply with present or future environmental, health and safety and planning requirements could result in the imposition of fines, breach of the Access Regulations and other regulatory requirements, liability to pay damages and the withdrawal of relevant consents and in the case of a breach of safety requirements where NR(HS) loses its safety consents, an obligation on HS1 to procure a replacement operator of High Speed 1.

FINANCING RISKS

Market and financing risks

HS1 will need to raise further debt from time to time in order, among other things, to:

- (a) finance or refinance future capital expenditure; and
- (b) enable it to refinance any debt, including any debt under the Senior Term Facilities on or before its Final Maturity Date.

Therefore, HS1 is exposed to market risks resulting from mismatches between HS1’s capital requirements and its access to capital in the future. HS1’s cost of funding may be influenced by, among other things, its own operating performance and general economic conditions. Although HS1 has not been materially impacted by current economic conditions, if financial markets deteriorate there could be an adverse effect on HS1’s ability to refinance its existing debt as and when required.

Moreover, HS1 is exposed to market risks resulting from mismatches between HS1’s capital requirements and the revenue generated as a result of the Concession. HS1’s future capital requirements and level of expenses will depend on numerous factors, including, amongst other things, capital expenditure caused by compliance with new safety requirements, continued demand for the international rail services operated on High Speed 1, the amount of cash generated from its operations and general industry and economic conditions. There can be no assurance that HS1 will be able to enter into new contracts on favourable terms upon the expiration or termination of existing contracts. The inability to cover long term funding costs through revenue streams could have a material adverse effect on HS1’s business, financial condition, results of operations or prospects.

Hedging Risks

The Security Group and the Issuer have a Hedging Policy in place to mitigate the risks arising from mismatches in cash flows received and payable from time to time. For more detail on the Hedging Policy see “*Summary of the Finance Documents – Common Terms Agreement - Hedging*”.

In order to address interest rate risks, inflation rate risks and/or currency risks, the Security Group and the Issuer will operate a hedging programme in accordance with the Hedging Policy and may enter into Treasury Transactions (for non-speculative purposes only, and such counterparty will not accede to the STID) which are not subject to the Hedging Policy, in the ordinary course of business. However, there can be no assurance that the Hedging Agreements will adequately address the hedging risks that the Security Group and/or the Issuer will face from time to time. In addition the Security Group could find itself over-/under-hedged which could lead to financial stress. The Security Group and the Issuer are subject to the creditworthiness of, and in certain circumstances early termination of the Hedging Agreements by, Hedge Counterparties or the counterparties to any Treasury Transaction (see the section entitled “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy*”).

Monitoring of Compliance with Warranties and Covenants and the Occurrence of Trigger Events, HS1 Events of Default or Potential HS1 Events of Default

The STID will provide that the HS1 Security Trustee will be entitled to assume, unless it is otherwise disclosed in any Investor Report or Compliance Certificate or the HS1 Security Trustee is expressly informed otherwise, that no Trigger Event, Loan Event of Default or Potential Loan Event of Default has occurred.

Furthermore, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether a Trigger Event, Loan Event of Default or a Potential Loan Event of Default has occurred, including, for this purpose, the continued accuracy of the representations and warranties made by the Obligor and compliance by the Obligor with their covenants and undertakings.

Accordingly, it will fall to the Obligor themselves to make these determinations. In this context, a number of these representations, warranties, covenants, undertakings and Loan Events of Default and Potential Loan Events of Default will be qualified by reference to a relevant fact, matter or circumstance having a Material Adverse Effect. Whilst the criteria set out in the definition of “Material Adverse Effect” are on their face objective, it will fall to the Obligor themselves to determine whether or not the relevant fact, matter or circumstance falls within any of the criteria and, as such, the determination will be subjective for so long as such determination is made by the Obligor.

However, the CTA will require the Obligor to inform the HS1 Security Trustee of the occurrence of any Trigger Event, Loan Event of Default and Potential Loan Event of Default promptly upon becoming aware of the same. In addition, the Obligor are required to confirm in each Investor Report and each Compliance Certificate, each of which will be delivered to, among other recipients, the Issuer and the HS1 Security Trustee whether or not any Trigger Event, Loan Event of Default or Potential Loan Event of Default has occurred (and, if one has, what action is being, or proposed to be, taken to remedy it). Failure promptly to identify a Trigger Event or Loan Event of Default could have a material adverse effect on Bondholders’ abilities to recover the full amount under the Bonds.

Financial Forecast

The information presented in “*Business of HS1-Selected Financial Information*” reflects the financial performance of the business of the Security Group and has been prepared for the purposes of this Prospectus for illustrative purposes only. Actual events and circumstances may vary materially from the assumptions made. No representation is made or intended, nor should any be inferred, with respect to the likely occurrence or existence of any particular fact or circumstance. If facts or circumstances occur which are less favourable than those projected, or if the assumptions used in formulating the financial projections prove to be incorrect, HS1 may be unable to satisfy its obligations under the HS1

Senior Debt, which may result in turn in the Issuer being unable to meet its obligations under the Issuer Senior Debt.

Potential investors should regard the assumptions and projections with considerable caution and are urged to evaluate the potential for any assumption to deviate from those set out in “*Business of HS1-Selected Financial Information*” and the implications of deviations in different assumptions on other assumptions and the income and cashflows of the Security Group.

Modifications, waivers and consents in respect of the Common Documents, the Finance Documents and the Issuer Transaction Documents

HS1 may request the HS1 Security Trustee to agree to any modification to, or to give its consent to any event, matter or thing relating to, or grant any waiver in respect of, the Common Documents without any requirement to seek the approval of the HS1 Secured Creditors or any of their Secured Creditor Representatives, in respect of a Discretion Matter.

The HS1 Security Trustee is entitled to exercise its sole discretion to approve a Discretion Matter if in the opinion of the HS1 Security Trustee, approval of the STID Proposal (i) is required to correct a manifest error, or an error in respect of which an English court would reasonably be expected to make a rectification order, or is of a formal, minor, administrative or technical nature or (ii) is not materially prejudicial to the interests of the Qualifying HS1 Secured Creditors (where “materially prejudicial” means that such modification, consent or waiver would have a material adverse effect on the ability of the Obligors to pay any amounts of principal or interest in respect of the Qualifying HS1 Senior Debt owed to the relevant Qualifying HS1 Secured Creditors on the relevant due date for payment therefor). The HS1 Security Trustee is not obliged to exercise its discretion and if it chooses not to do so the voting category selection procedures set out in the STID and described in the section “*Summary of the Common Documents – Security Trust and Intercreditor Deed*” below, will apply.

The Issuer may also request the Bond Trustee to agree to any modification to, or to give its consent to any event, matter or thing, or grant any waiver in respect of the Issuer Transaction Documents (other than the Dealership Agreement and each Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) without the consent or sanction of the Bondholders or (subject as provided below) any other Issuer Secured Creditor.

The Bond Trustee may without the consent or sanction of Bondholders, the Receiptholders, the Couponholders and the other Issuer Secured Creditors, concur with, or instruct the Issuer Security Trustee to concur with the Issuer or any other relevant parties in making (i) any modification to the Conditions or the Issuer Transaction Documents (other than the Dealership Agreement and each Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which the Issuer Security Trustee holds security if in the opinion of the Bond Trustee such modification is made to correct a manifest error, or an error in respect of which an English court would reasonably be expected to make a rectification order, or is of a formal, minor, administrative or technical nature or (ii) any modification (other than in respect of a Basic Terms Modification) to the Conditions or any Issuer Transaction Document (other than the Dealership Agreement and each Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which the Issuer Security Trustee holds security if the Bond Trustee is of the opinion that such modification is not materially prejudicial (where “materially prejudicial” means that such modification, consent or waiver would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor) to the interests of the Bondholders provided that to the extent such modification under (ii) above relates to an Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent.

The Bond Trustee may, without prejudice to its rights in respect of any subsequent breach or Bond Event of Default, from time to time and at any time but only if and in so far as in its opinion the interests of the Bondholders shall not be materially prejudiced (where “materially prejudiced” means that such waiver would have a material adverse effect on the ability of the Issuer to pay any amounts of

principal or interest in respect of the Bonds on the relevant due date for payment therefor) thereby, waive or authorise (or instruct the Issuer Security Trustee to waive or authorise) any breach or proposed breach by the Issuer of any of the covenants or provisions contained in the Conditions or any Issuer Transaction Document (other than the Dealership Agreement and each Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) to which it is a party or in respect of which it holds security or determine that any event which would otherwise constitute a Bond Event of Default shall not be treated as such for the purposes of the Bond Trust Deed provided that to the extent such event, matter or thing relates to an Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent.

Pursuant to the Issuer Deed of Charge, the Bond Trustee will be authorised to execute and deliver on behalf of each such Issuer Secured Creditor all documentation required to implement such modification and such execution and delivery by the Bond Trustee will bind each of the Issuer Secured Creditors as if such documentation had been duly executed by it.

There can be no assurance that any modification, consent or waiver in respect of the Common Documents or Issuer Transaction Documents will be favourable to all Bondholders. Such changes may be detrimental to the interests of some or all Bondholders, despite the ratings of such Bonds being affirmed.

The conditions of the Bonds contain provisions for voting by Bondholders to vote on matters affecting their interests generally (other than matters which concern the enforcement of the Issuer Security or modifications to the STID, which matters may only be addressed in accordance with the procedures set out in the STID as described above). These provisions permit defined majorities to bind all Bondholders including Bondholders who do not vote on the relevant matter and Bondholders who voted in a manner contrary to the majority.

Voting by the Bondholders in respect of a STID Proposal

The Bondholders exercise their right to vote by "blocking" their Bonds in the clearing system and delivering irrevocable instructions to the Registrar or the Principal Paying Agent that the votes in respect of their Bonds are to be cast in a particular way. In respect of modifications, consents and waivers to the Common Documents, the Bond Trustee (as Secured Creditor Representative) is required to notify the HS1 Security Trustee of each vote received by the Registrar or the Principal Paying Agent no later than the Business Day on which any vote is received. The STID provides that as soon as the HS1 Security Trustee has received sufficient votes from the HS1 Secured Creditors (including the Bond Trustee as Secured Creditor Representative of the Bondholders) in favour of a consent, modification or waiver of a Common Document, the Decision Period will be closed and no further votes will be taken into account by the HS1 Security Trustee.

Accordingly, unless a Bondholder exercises its right to vote at the beginning of a Decision Period, it is possible that a consent, modification or waiver of a Common Document may be approved by the HS1 Secured Creditors before such Bondholder has participated in any vote and any consent, modification or waiver of a Common Document duly approved by the HS1 Secured Creditors shall be binding on all of the Bondholders, Receiptholders and Couponholders .

Liquidity Facility

The Liquidity Facility will be available to both the Obligors and the Issuer to provide liquidity support in respect of payments of scheduled amortisation, interest and fee amounts payable in respect of the Initial Authorised Credit Facilities, the Bonds, the PP Notes, the Hedging Agreements and certain other payments due to the HS1 Secured Creditors and the Issuer Secured Creditors. However, there can be no assurance that funds available under the Liquidity Facility will be sufficient to cover any such shortfall. This may lead to an early termination of one or more Hedging Agreements, a default under the Bonds or the PP Notes, or a default under any other facilities supported by the Liquidity Facility and, subsequently, a default under the CTA. Any such default could adversely affect the ability of the Obligors and the Issuer to make payments due to the HS1 Secured Creditors and the Issuer Secured Creditors.

Capital Structure

Because of the secured nature of its borrowings and the structure that applies to them, HS1 has been able to raise more debt than would typically be the case for an unsecured borrower. HS1 has and, following the issue date, will continue to have a substantial amount of outstanding indebtedness with significant debt service requirements. In addition, HS1 retains the ability to incur additional indebtedness in the future to finance their capital investment programmes. This significant leverage could have important consequences for Bondholders, including:

- making it more difficult for HS1 to satisfy their obligations under each IBLA and therefore for the Issuer in respect of the Bonds;
- requiring HS1 to dedicate a substantial portion of their cashflow from operations to payments on its debt obligations, thus reducing the availability of its cashflow to fund growth and for other general corporate purposes; and
- increasing HS1's vulnerability to a downturn in its business, economic or industry conditions.

OTHER LEGAL RISKS

Mortgagee in possession liability

Should the HS1 Security Trustee take enforcement procedures under the HS1 Security Documents and if there is physical entry into possession of any stations or an act of control or influence that may amount to possession, such as receiving rental income directly from a relevant tenant, the HS1 Security Trustee may be deemed to be a mortgagee in possession. A mortgagee in possession may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. The HS1 Security Trustee has the absolute discretion at any time to refrain from taking any action under the Common Documents, including becoming a mortgagee in possession in respect of any station, unless it is satisfied at the time that it is adequately indemnified by the HS1 Secured Creditors.

Change of law

The transactions described in this Prospectus (including the issue of the Bonds) and the ratings which are assigned to the Bonds are based on the relevant law and administrative practice in effect as at the date hereof, and having regard to the expected tax treatment of all relevant entities under such law and practice. It is possible that, whether as a result of case law or through statute, changes in law or regulations, or their interpretation or application may result in either the Issuer's or the Security Group's debt financing arrangements as originally structured no longer having the effect anticipated or which could have a material adverse effect on the Issuer's or the Security Group's business, financial condition and results of operation and/or could adversely affect the rights, priorities of payments and/or treatment of holdings in the Bonds of the Bondholders.

Challenges by secured creditors

The financing transactions described in this Prospectus have been structured based on English law and practice as in effect on the date of this Prospectus. It is possible that a secured creditor which is subject to laws other than the laws of England and Wales may seek to challenge the validity and/or enforceability of one or more features of the financing structure under the local laws of such creditor's jurisdiction. Potential investors should be aware that the outcome of any such challenge may depend on a number of factors, including but not limited to, the application of the laws of a jurisdiction other than England and Wales. There can be no assurance that any challenge would not adversely affect directly or indirectly the rights of the other secured creditors, including the Bondholders, the market value of the Bonds and/or the ability of the Issuer to make interest and principal payments on the Bonds.

TAX RISKS

The Issuer's UK tax position

The Taxation of Securitisation Companies Regulations 2006 as amended (the “**Securitisation Regulations**”) which take effect under Chapter 4, Part 13, of the Corporation Tax Act 2010 deal with the corporation tax position of securitisation companies with effect for periods of account beginning on or after 1 January 2007. The Issuer has been advised that it should be taxed in accordance with the Securitisation Regulations.

If the Securitisation Regulations apply to a company, then, broadly it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents.

Prospective investors should note that if the Issuer were not taxed under the regime provided for by Securitisation Regulations, then its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse affect on its ability to make payments to Bondholders.

Potential secondary tax liabilities of the members of Security Group and the Issuer

Where a company fails to discharge certain tax liabilities within a specified time period, UK tax law imposes, in certain circumstances (including where that company has been sold so that it becomes controlled by another person), secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

Under the Tax Deed of Covenant, the Tax Covenantors (defined in the Tax Deed of Covenant) and the members of the Security Group (defined in the Tax Deed of Covenant and including Holdco, HS1, HSRF and the Issuer) represent that nothing has been done, and covenant that nothing will be done by them, which might reasonably be expected to give rise to any secondary tax liability in any member of the Security Group. The Tax Deed of Covenant also contains a covenant from the Covenantors to discharge secondary tax liabilities that arise to members of the Security Group as a result of acts or omissions of persons who are neither members of the Security Group nor Tax Covenantors. If, however, any such secondary tax liabilities do arise in the Issuer or HS1, and those secondary tax liabilities are not discharged by the Covenantors, and are of significant amounts, the Issuer or HS1 could be adversely affected.

The Issuer and the other members of the Security Group are members of a value added tax group of which HS1 is the representative member. Members of a value added tax group are jointly and severally liable for value added tax liabilities of each member of the group.

Withholding tax in respect of the Bonds

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Bonds, none of the Issuer, any Paying Agent nor any other person will be obliged to pay any additional amounts to Bondholders or, if Definitive Bonds are issued, Couponholders, or otherwise to compensate Bondholders or Couponholders for the reduction in the amounts they will receive as a result of such withholding or deduction. See “*Tax Considerations*” for a discussion of the risk of withholding taxes applying in respect of payments under the Bonds.

Withholding tax in respect of each IBLA

The Issuer and HS1 believe that all payments of interest made under an IBLA can be made without deduction or withholding for or on account of any UK tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment due to the Issuer under an IBLA, HS1 will be obliged to gross up that payment so that, after the deduction or withholding has been made, the Issuer will receive the same cash amount that it would have received had no such

withholding or deduction been required to be made. If HS1 is obliged to increase any sum payable by it to the Issuer as a result of HS1 being required to make a withholding or deduction from that payment, HS1 will have the option (but not the obligation) to prepay all relevant outstanding advances made under the IBLA in full. If HS1 chooses to prepay the advances, the Issuer will then be required to redeem the Bonds. Such redemption would be for an amount calculated in accordance with Condition 8 (*Redemption, Purchase and Cancellation*). If HS1 does not have sufficient funds to enable it to either repay the advances or to make increased payments to the Issuer, the Issuer's ability to make payments of interest and principal under the Bonds could be adversely affected.

Withholding tax in respect of the Hedging Agreements

The Issuer and the members of the Security Group believe that all payments made under the Hedging Agreements can be made without deduction or withholding for or on account of any UK tax.

In the event that any such withholding or deduction is required to be made from any payment due under a Hedging Agreement by the Hedge Counterparty, the amount to be paid will be increased to the extent necessary to ensure that, after any such withholding or deduction has been made, the amount received by the Security Group or the Issuer (as applicable) is equal to the amount that that party would have received had such withholding or deduction not been required to be made. In the event that any such withholding or deduction is required to be made from any payment due under a Hedging Agreement by the Issuer or by a member of the Security Group, the Issuer or such member of the Security Group will make payment subject to that withholding or deduction but will not be required to pay any additional amount to any Hedge Counterparty in respect thereof. If a Hedge Counterparty is obliged to pay an increased amount as a result of its being obliged to make such a withholding or deduction or if the Issuer or a member of the Security Group makes a payment to it subject to such a withholding or deduction, the Hedge Counterparty may terminate the transactions under the relevant Hedging Agreement, subject to the Hedge Counterparty's obligation to use its reasonable efforts to transfer its rights and obligations under that Hedging Agreement to another of its offices or affiliates such that payments made by and to that other office or affiliate under that Hedging Agreement can be made without any withholding or deduction for or on account of tax.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding tax in relation to such payments. The transitional period will end after agreement on exchange of information is reached between the European Union and certain non-European Union states. A number of third countries (including Switzerland) have adopted equivalent measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Change in tax law

The statements in relation to taxation set out in this Prospectus are based on current law and the practice of the relevant authorities in force or applied at the date of this Prospectus. No assurance can be given as to the effect of any changes in such law or practice after the date of this Prospectus. Any changes in such law or practice might have an adverse effect on the financial position of the Issuer or HS1.

Trade losses

A UK resident trading company is permitted, where certain conditions are met, to carry forward trading losses incurred in previous accounting periods to reduce its taxable trading profits in subsequent

accounting periods. As at 31 December 2010 HS1 had carried-forward trading losses of £173.0 million, of which £110.9m were originally incurred by CTRL (UK) Limited (and transferred to HS1 with the CTRL (UK) Limited trade and assets). The former CTRL (UK) Limited tax losses will be subject to streaming such that they may only be offset against future taxable profits arising from the former CTRL (UK) Limited trade which is now carried on by HS1. The remaining loss of £62.1m arose during the year to 31 December 2010.

Chapter 2, Part 14 of the Corporation Tax Act 2010 restricts the carry forward of trading losses in circumstances where there has been both a change of ownership of the trading company and, within three years of that change (either before or after), a major change in the nature or conduct of its trade. A change in ownership of HS1 took place in November 2010 and so it is necessary to ensure that there has been and will not be a relevant change in the nature or conduct of HS1's trade. HS1 believes that no such change has taken place within the three year period surrounding the change in ownership (both before and after), and intends to ensure that no such change occurs within the remainder of the three year period after the change.

Prospective investors should note that if there were a major change in the nature or conduct of HS1's trade within three years of its change in ownership in November 2010, so that HS1 is not able to utilise its carried forward trading losses this could adversely impact HS1's financial position in that HS1 may be required to fund payment of corporation tax on its trading profits at an earlier date than is currently forecast. This could potentially have an adverse effect on HS1's ability to make payments to the Issuer under the IBLAs, and in turn on the Issuer's ability to make payments to the Bondholders under the Bonds.

INSOLVENCY CONSIDERATIONS

Appointment of Administrative Receiver

The Insolvency Act restricts the right of the holder of a floating charge to appoint an administrative receiver (unless the security was created prior to 15 September 2003 or an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration).

The Insolvency Act contains provisions that allow for the appointment of a receiver in relation to certain transactions in the capital markets (the "**capital markets exception**"). Whilst there is as yet no case law on how the capital markets exception will be interpreted, it should be possible to appoint an administrative receiver to HS1 or the Issuer. Were it not to be possible to appoint an administrative receiver in respect of one or more of HS1 or the Issuer, they would in all likelihood be subject to administration (see "*Railway administration*" below in relation to HS1) if they were to become insolvent.

The UK Secretary of State for Business, Innovation and Skills may, by secondary legislation, modify the exceptions to the prohibition on appointing an administrative receiver and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described herein, will not be detrimental to the interests of the Bondholders.

Railway administration

HS1 is a "protected railway company" for the purposes of the Railways Act. As such, it is subject to the special railway administration regime set out in the Railways Act. Under the regime, the Secretary of State alone could petition a court to have a railway administrator appointed in respect of HS1 where HS1 is either unable to pay its debts or it is just and equitable for the Secretary of State to seek HS1's winding up.

However, the Secretary of State has agreed under the Funders' Direct Agreement not to take any action to wind up, appoint or consent to the appointment of an administrator (including a railway administrator) in relation to HS1.

Recharacterisation of fixed security interest

There is a possibility that a court could find that the fixed security interests expressed to be created by the HS1 Security Documents and the Issuer Deed of Charge could take effect as floating charges as the description given to them as fixed charges is not determinative.

Where the chargor is free to deal with the secured assets without the consent of the chargee, the Court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

Whether the fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the HS1 Security Trustee or, as the case may be, the Issuer Security Trustee has the requisite degree of control over the chargor's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the HS1 Security Trustee or, as the case may be, the Issuer Security Trustee in practice.

If the fixed security interests are recharacterised as floating security interests, the claims of (a) the unsecured creditors of the chargor in respect of that part of the chargor's net property which is ring-fenced under the Insolvency Act and (b) certain statutorily defined preferential creditors of the chargor, would have priority over the rights of the HS1 Security Trustee or the Issuer Security Trustee, as the case may be, to the proceeds of enforcement of such security. Additionally, liquidation expenses could diminish the amount of the proceeds of enforcement. As a result, the full amount of the proceeds of enforcement of the security may not be available to repay an IBLA or the Bonds (as applicable).

A receiver appointed by the HS1 Security Trustee or the Issuer Security Trustee would be obliged to pay preferential creditors out of floating charge realisations in priority to payments to the HS1 Secured Creditors and the Issuer Secured Creditors (including the Bondholders), respectively. Under the Insolvency Act the only categories of preferential debts are certain amounts payable in respect of occupational pension schemes, employee remuneration and levies on coal and steel production.

ISSUER AND BOND CONSIDERATIONS

Special purpose vehicle issuer

The Issuer is a special purpose financing entity established for the purpose of issuing asset backed securities. The Issuer does not have any business operations other than raising external funding through the issuance of Bonds, borrowing under the Liquidity Facility and entering into various Issuer Hedging Agreements. Other than the proceeds of the issuance of Bonds, the Issuer's principal source of funds will be pursuant to each IBLA, the Liquidity Facilities and the Issuer Hedging Agreements.

Therefore, the Issuer is subject to all the risks relating to costs, revenues and/or cashflows to which HS1 is subject. Such risks could limit funds available to HS1 to satisfy in full and on a timely basis its obligations under the Initial Authorised Credit Facilities Agreement and/or each IBLA.

Reliance by the Issuer and the Security Group on third parties and Hedge Counterparties

The integrity of the structure and the ability of HS1 to pay amounts due under each IBLA and the ability of the Issuer to pay amounts due under the Bonds depends upon a number of third-parties such as the Account Bank and the Hedge Counterparties. In the event that one or more of those parties is downgraded by one or more of the rating agencies or if one or more of such third parties defaults on its obligations to make payments to the Issuer or HS1, this may have an adverse effect on the rating of the Bonds and/or the ability of the Issuer or HS1 to satisfy its payment obligations in full. If a Hedging Agreement is terminated, the Issuer and HS1 may be exposed to fluctuations in interest rates and/or currencies that were previously hedged. Upon any such termination, the Issuer or HS1, as applicable may be obliged to make a termination payment to the relevant Hedge Counterparty. There can be no assurance that the Issuer or HS1, as applicable will have sufficient funds available to make a termination payment under the relevant Hedging Agreement, nor can there be any assurance that the Issuer or HS1 will be able to enter into a replacement hedging agreement, or if one is entered into, that

the credit rating of the replacement hedge counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Bonds by the Rating Agencies.

The Issuer Security and HS1 Security

Although the Issuer Security Trustee will hold the benefit of the Issuer Security on trust for the Issuer Secured Creditors (including the Bondholders) and the HS1 Security Trustee will hold the benefit of the HS1 Security on trust for HS1 Secured Creditors (including the Issuer), such security interests will also be held on trust for certain third parties. Certain of the Issuer's obligations to such third parties rank ahead of the Bondholders. Such persons include, *inter alios*, the Bond Trustee (in its individual capacity), the Issuer Security Trustee (in its individual capacity), the Liquidity Facility Providers, the Hedge Counterparties (in respect of certain amounts due to them), the Paying Agents and the Account Bank in respect of certain amounts owed to them (see "*Summary of the Issuer Transaction Documents – Issuer Deed of Charge*"). To the extent that significant amounts are owing to such persons, the amounts available to Bondholders will be reduced. Likewise, certain of the Obligor's obligations to certain third parties will rank ahead of its obligations to the Issuer. In addition, it should be noted that unsecured creditors of the Obligor, such as trade creditors and suppliers, although subordinate to HS1 Secured Creditors, are not bound into the financing structure as they are not parties to the STID and CTA and so will be able to petition for a winding up or administration of HS1 or any Obligor which fails to pay its debts as they fall due. Any such action may result in the occurrence of an Insolvency Event which constitutes a Loan Event of Default and may lead to delivery of a Loan Enforcement Notice. To the extent that the Obligor has insufficient sums to meet all obligations in full, this could adversely affect HS1's ability to make payments under each IBLA and consequently the Issuer's ability to make payments of interest and principal under the Bonds.

Timing of payments on debt obligations of the Obligor will not necessarily coincide, and, prior to the occurrence of a Loan Event of Default or a Potential Loan Event of Default there is no obligation to ensure that a permitted payment made in respect of any Subordinated Intragroup Liabilities will not lead to a deficiency of funds to make payments in respect of HS1 Senior Debt that falls due on a later date.

Conflict of interest

The Issuer Deed of Charge will contain provisions requiring the Issuer Security Trustee to act only in accordance with the directions of the Bond Trustee prior to redemption in full of all of the Bonds. Following redemption in full of all of the Bonds, the Issuer Security Trustee shall have regard to the interests of the person appearing highest in the order of priority of payments to whom any amount is owed under the Issuer Deed of Charge with respect to all powers, trusts, authorities, duties and directions of the Issuer Security Trustee.

The Bond Trust Deed will require the Bond Trustee to have regard to the interests of all the Bondholders (so long as any of the Bonds remains outstanding) equally as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee as if they formed a single class (except where expressly required otherwise).

For so long as any of the Bonds are outstanding, the Bond Trustee shall not be bound to take any steps, proceedings or other actions unless:

- (a) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all liabilities, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith; and
- (b) it shall have been directed or requested to do so by Issuer Qualifying Creditors together holding or representing 25 per cent. or more of Issuer Qualifying Debt.

The Bond Trustee may give its consent to any amendment to, or grant any waiver under or in respect of, any term of any Issuer Transaction Document (other than the Dealership Agreement or any Subscription Agreement) to which it is a party or over which it has security or give its written consent

to any event, matter or thing (without the consent of the Bondholders or any other person) if to do so would, among other things, not in its opinion be materially prejudicial to the interests of the Bondholders (where “materially prejudicial” means that such modification, consent or waiver would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor), or in certain circumstances, where a specified test or conditions have been met.

Limited liquidity of the Bonds; Absence of secondary market for the Bonds

There can be no assurance that a secondary market for the Bonds will develop, or, if a secondary market does develop for any of the Bonds issued after the date of this Prospectus, that it will provide any holder of Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds are affected by, among other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events and the performance and financial condition of HS1.

Rating of the Bonds

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of HS1 and the financial condition of the Obligors from time to time.

The ratings assigned by the Rating Agencies to the Bonds reflect only the views of the Rating Agencies and in assigning the ratings the Rating Agencies take into consideration the credit quality of HS1 and structural features and other aspects of the transaction. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgment, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting HS1 and/or circumstances relating to the rail industry generally, could have an adverse impact on the ratings of the Bonds.

Change to covenants subject to Ratings Confirmation

Changes can be made to certain covenants provided that HS1 and/or the Issuer, as the case may be, obtains a Ratings Confirmation in respect of the particular change. The Rating Agencies may not provide their confirmation in the time available or at all, and they will not be responsible for the consequences thereof. A Ratings Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time. A Ratings Confirmation cannot be construed as advice for the benefit of any party to the transaction. No assurance can be given that, although a Ratings Confirmation in respect of any particular change has been provided, such change will not have an adverse impact upon the business of HS1.

Certain risks related to Index-Linked Bonds

The Issuer may issue Bonds with principal or interest determined by reference to the UK Retail Price Index. Potential investors should be aware that:

- the market price of such Bonds may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time than expected;

- they may lose all or a substantial portion of their principal;
- the UK Retail Price Index may be subject to significant fluctuations that may not correlate with changes in interest rates or other indices;
- if the UK Retail Price Index is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the UK Retail Price Index on principal or interest payable likely will be magnified; and
- the timing of changes in the UK Retail Price Index may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the UK Retail Price Index, the greater the effect on yield.

The historical performance of the UK Retail Price Index should not be viewed as an indication of the future performance of such index during the term of any Index-Linked Bonds.

Certain risk related to Bonds issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Certain risks related to Fixed Rate Bonds

Investment in Fixed Rate Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Bonds.

Changes to the risk weighted asset framework

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in numerous measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in certain securitisation exposures and/or the incentives for certain investors to invest in securities issued under such structures, and may thereby affect the liquidity of such securities.

In particular, Directive 2006/48/EC and Directive 2006/49/EU, in each case as amended (together, the “CRD”) has been amended by Directive 2009/111/EC (the “CRD2”) which, among other things, inserts a new Article 122a into the CRD.

Article 122a provides that an EU credit institution shall only be exposed to the credit risk of a securitisation position if (a) the originator, sponsor or original lender has represented that it will retain, on an ongoing basis, a material net economic interest in the securitisation of not less than 5 per cent. and (b) it is able to demonstrate to its regulator on an ongoing basis that it has a comprehensive and thorough understanding of the key terms, risks and performance of each securitisation position in which it is invested. Failure by an EU credit institution investor to comply with the requirements of Article 122a in relation to any applicable investment will result in an increased capital charge to or increased risk-weighting applying to such investor in respect of that investment.

No retention representation of the sort referred to in the preceding paragraph has been made in relation to this transaction.

Investors should be aware that the regulatory capital treatment of any investment in the Bonds will be determined by the interpretation which an investor's regulator places on the provisions of CRD (as amended by CRD2) and the provisions of national law which implements it. Prospective investors should therefore be aware that should the relevant investor's regulator interpret the regulations such that Article 122a does apply to an investment in the Bonds, significantly higher capital charges may be

applied to that investor's holding. Although market participants have, in consultations relating to these regulatory reforms, requested guidance on the structures captured by the definitions, no definitive guidance has been forthcoming. Therefore some uncertainty remains as to which transactions are subject to Article 122a. The Dealers do not make any representation in respect of the application of Article 122a (or indeed any other regulation with a similar or equivalent effect to Article 122a) to any investment in the Bonds. Investors should consult with their regulator should they require guidance in relation to the regulatory capital treatment that their regulator would apply to an investment in the Bonds.

Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors, including investment firms, insurance or reinsurance undertakings, UCITS and certain hedge fund managers.

Article 122a and/or any further changes to the regulation or regulatory treatment of the Bonds for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Bonds in the secondary market.

In addition, implementation of and/or changes to the Basel II framework may affect the capital requirements and/or the liquidity of the Bonds.

The Basel II framework has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Bonds for investors who are, or may become, subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and minimum leverage ratio for credit institutions. In particular, the changes refer to among other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "Liquidity Coverage Ratio" and the "Net Stable Funding Ratio"). Member countries will be required to implement the new capital standards from January 2013, the new "Liquidity Coverage Ratio" from January 2015 and the "Net Stable Funding Ratio" from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and on 20 July 2011 the European Commission adopted a legislative package of proposals (known as "**CRD IV**") to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow individual member states to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III.

Investors should consult their own advisers as to the regulatory capital requirements in respect of the Bonds and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures and other applicable laws and regulations applicable to the investment in, and the holdings of securities such as the Bonds, including without limitation, the Solvency II Directive and the Alternative Investment Fund Managers Directive. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Denominations and trading

The Bonds will either be Bearer Bonds or Registered Bonds as specified in the applicable Final Terms and serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall

be £100,000, €100,000, U.S.\$200,000 or not less than the equivalent of €100,000 in any other currency as at the date of issue of the relevant Bonds.

Bonds may be issued with a minimum Specified Denomination and higher integral multiples of a number which is smaller than the Specified Denomination. It is possible that the Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination (a) may not be able to trade such holding and (b) may not receive a definitive bond in respect of such holding (should Definitive Bonds (as defined in the Conditions) be printed) unless such Bondholder purchases a principal amount of Bonds such that its holding amounts to at least the minimum Specified Denomination.

Book-entry form of Bonds

The Bonds will initially only be issued in global form and deposited with a common depository for Euroclear and Clearstream, Luxembourg. Interests in the Global Bonds will trade in book-entry form only. The common depository, or its nominee, for Euroclear and Clearstream, Luxembourg will be the sole holder of the Global Bonds representing the Bonds. Accordingly, owners of book-entry interests must rely on the procedures of Euroclear and Clearstream, Luxembourg, and nonparticipants in Euroclear or Clearstream, Luxembourg must rely on the procedures of the participant through which they own their interests, to exercise any rights and obligations of a holder of Bonds.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Bonds. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Bonds.

Counterparty Risk

Liquidity Facilities and Issuer Hedging Agreements involve HS1 and/or the Issuer entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to HS1 and/or the Issuer as the case may be under certain circumstances as described therein. HS1 and/or the Issuer as the case may be will be exposed to the credit risk of the counterparty in respect of any such payments. Each Issuer Hedge Counterparty and each Liquidity Facility Provider is expected to have a rating at least equal to the minimum expected ratings applicable to each Rating Agency at the time when the relevant arrangement is put in place.

The Bonds are subject to exchange rate risks and exchange controls risks.

The Issuer will pay principal and interest on the Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. The Issuer has no control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. Moreover, if payments on certain Bonds are determined by reference to a formula containing a multiplier or leverage factor, the effect of any change in the exchange rates between the applicable currencies will be magnified. In recent years, exchange rates between certain currencies have been highly volatile and volatility between such currencies or with other currencies may be expected in the future. Fluctuations between currencies in the past are not necessarily indicative, however, of fluctuations that may occur in the future. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease the Investor's Currency-equivalent yield on the Bonds, the Investor's Currency-equivalent value of the principal payable on the Bonds and the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

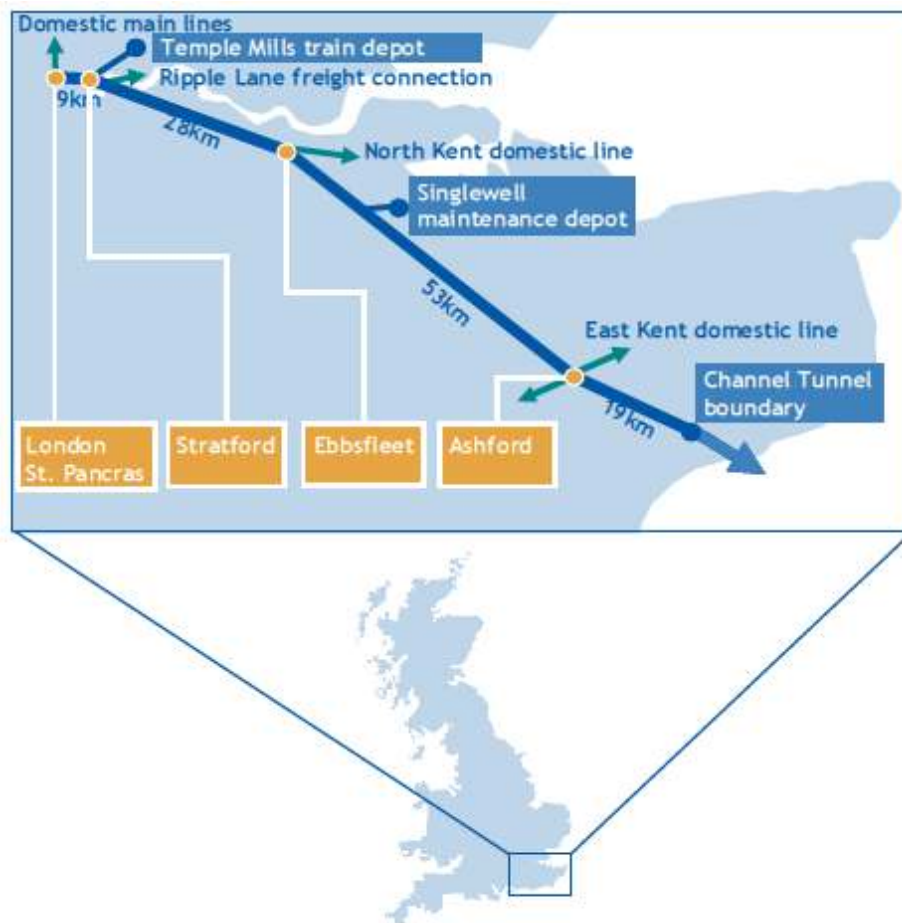
BUSINESS OF HS1

History & Business

Overview

HS1 holds the HS1 Concession pursuant to the Concession Agreement and other related agreements including the HS1 Leases (together, the “**Concession Documents**”) to operate, manage and maintain High Speed 1. High Speed 1 comprises the 109 kilometre high speed rail line connecting St Pancras International to high-speed commuter services throughout Kent, and international passenger destinations in Europe such as Paris and Brussels via the Channel Tunnel, as well as the four stations along the route, St Pancras International, Stratford International, Ebbsfleet International (the “**HS1 Stations**”) and Ashford International.

The following diagram shows the High Speed 1 rail and station infrastructure:



High Speed 1 is a modern, high performance, high speed rail line and is the UK’s only high speed railway. It forms the UK section of the Paris-Brussels-Köln-Amsterdam-London trans-European transport network priority project. High Speed 1 was built in two sections, with the final section opening in 2007. Domestic high speed preview passenger services commenced in June 2009 with full services launched in December 2009.

High Speed 1 is predominantly a high-speed passenger railway. In the year ending 31 March 2012, High Speed 1 handled 53,359 and 18,291 domestic and international train paths respectively. High Speed 1 is also capable of carrying freight traffic and HS1 also has freight operating train customers (though they operate a very small number of services relative to the number of passenger services operating on the route).

HS1 generates revenue from regulated track and station access charges from international and domestic train operators, with additional revenue earned through unregulated retail, advertising and car parking activities. Domestic passenger rail service revenue represents approximately 58% of total revenue and is supported by the UK Government, which has committed to underpin domestic passenger services for the term of the Concession Agreement – see “*Overview of the Project Documents – The Domestic Underpinning Agreement*”.

As described in more detail below, the operation, maintenance, renewal and replacement of the High Speed 1 railway infrastructure (excluding the electrical power supply equipment), the HS1 Stations and the Singlewell Infrastructure Maintenance Depot have been sub-contracted to NR(HS). The operation, maintenance, renewal and replacement of Ashford International has been sub-contracted to EIL. The UKPN Parties are responsible for the operation, maintenance and renewal of the electricity power supply equipment for High Speed 1 pursuant to the UKPN Agreements.

High Speed 1 is owned by the UK Government, but the right to exploit the infrastructure comprising High Speed 1 and leases of the assets comprising that infrastructure were granted to HS1 under the Concession Agreement and the HS1 Leases respectively in November 2010. HS1 is wholly owned by two major global infrastructure investors – Borealis Infrastructure and Ontario Teachers’ Pension Plan – see “*Corporate Structure*” below.

Strategy

HS1’s vision is creating value by being recognised as the world’s leading high speed railway business. Its strategic objectives to achieve this vision are to protect existing revenues, as well as to pursue incremental opportunities to grow revenue. These objectives are underpinned by two principles:

- (a) to sustain a high level of performance of the HS1 infrastructure; and
- (b) to deliver cost efficiencies for the benefit of both HS1 and its customers.

In following these principles, it will protect the safety of its staff and customers and protect the performance, quality and life of the infrastructure assets through high quality maintenance and renewal. These objectives will protect HS1’s core revenue. HS1 is determined to grow the business, working with its customers to seek new opportunities, through innovation to deliver more efficient operation, maintenance and renewal and through creativity in retail and other commercial opportunities.

History

High Speed 1 was built in two sections – Section 1, from the Channel Tunnel to Southfleet Junction/Fawkham Junction in North Kent, opened to international passenger services in September 2003 and served by Waterloo International train station (which was not part of the HS1 network) until November 2007; Section 2, from St Pancras International, via new stations at Stratford International and Ebbsfleet International to Southfleet Junction, opened on 14 November 2007, at which time all services to Waterloo International ceased. Ashford International predates the construction of Section 1 but leasehold interests in the station and associated platforms were granted to HS1 in August 2010.

Corporate Structure

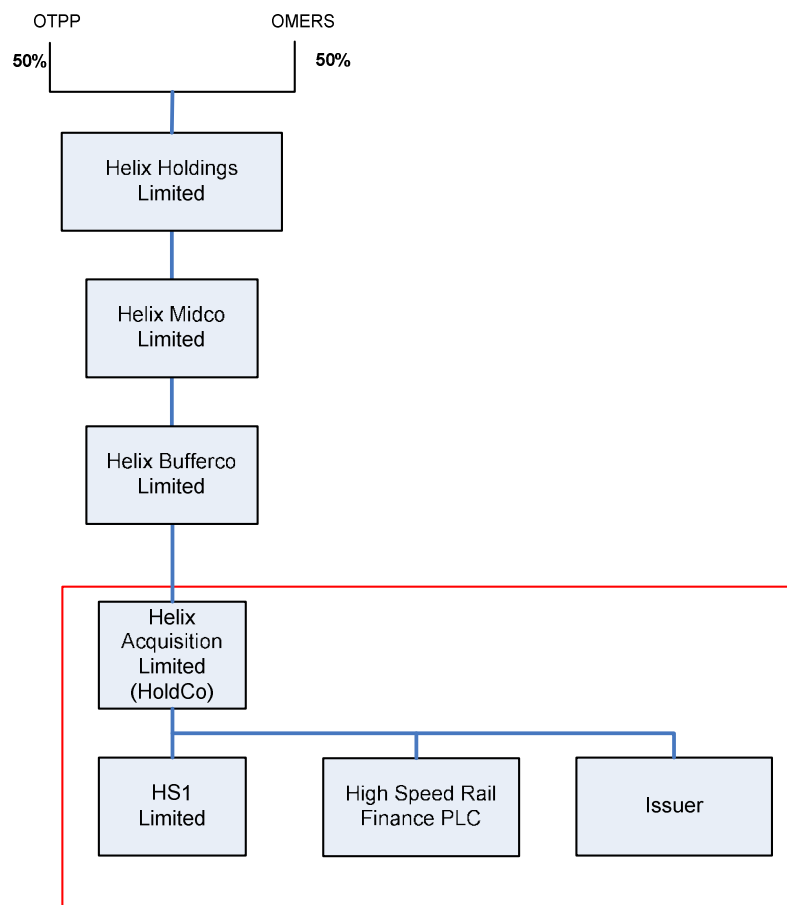
Set out below is the corporate structure showing the detail of the ring fenced security group. There are a number of intermediate holding companies between the shareholders and Helix Acquisition Limited.

Shareholders

The ultimate shareholders of HS1 are OMERS Administration Corporation (“**OMERS**”) (as to 50 per cent.) and the Ontario Teachers’ Pension Plan Board (“**OTPP**”) (as to 50 per cent.). There is a shareholders’ agreement in place governing the exercise of the rights in HS1.

OMERS holds its interest in HS1 through Borealis International Investments Corporation and BPC UK Rail Corporation. OMERS, one of Canada’s leading pension funds, represents 947 employers and is responsible for the pension income for almost 420,000 members, retirees and survivors, including Ontario municipal workers. OMERS has a AAA credit rating from Standard & Poor’s and as at 31 December 2011 had over C\$55.1 billion in net investment assets. Borealis Infrastructure (“**Borealis**”) identifies, invests in and manages infrastructure assets on behalf of OMERS. It currently manages investments of approximately C\$9.5 billion in Canada, the United States and Europe.

OTPP is an independent corporation responsible for investing and administering the pensions of Ontario’s 300,000 current and retired school teachers. With net assets of C\$117.1 billion as at 31 December 2011, it is one of the largest financial institutions in Canada. OTPP is a significant long-term holder of infrastructure and timberland assets in North America, Europe and South America. As at 31 December 2011 its infrastructure and timberland investments totalled C\$10.8 billion.



- Ring fence for refinancing structure

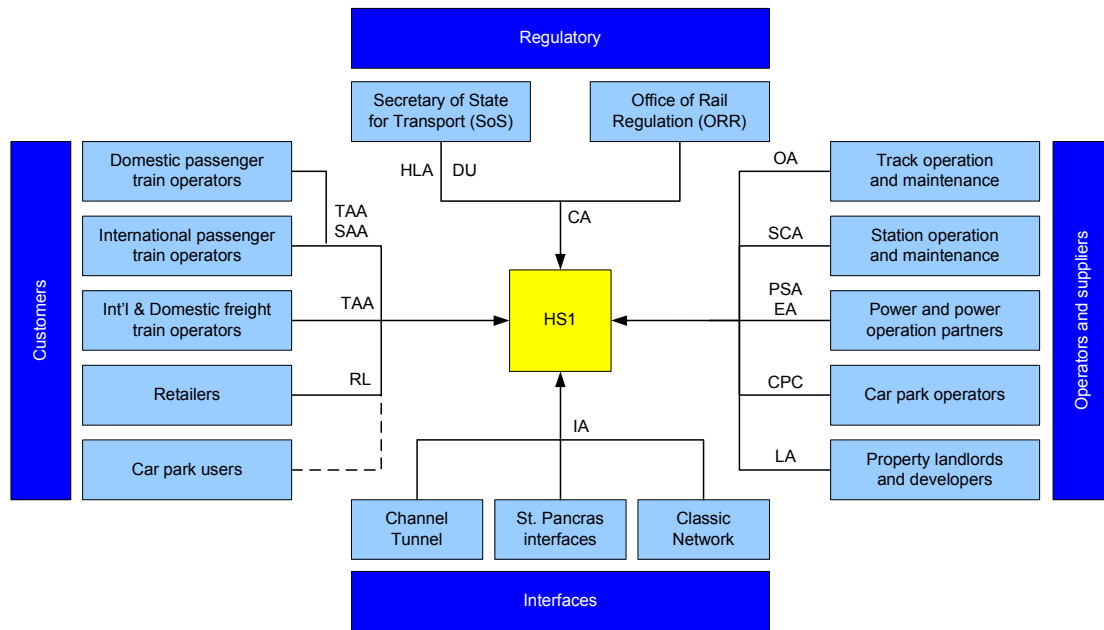
The HS1 Concession

The Secretary of State has granted HS1 a concession to operate, maintain, repair and renew High Speed 1 until 31 December 2040 (the “**HS1 Concession**”). During the term of the HS1 Concession, HS1 earns revenues from charging TOCs for access to High Speed 1 under the terms of Track Access Agreements and Station Access Agreements – see “*HS1 Revenues*” below.

Regulatory & Contractual Framework

The regulatory regime applicable to High Speed 1 is effected through a combination of contractual rights (through the Concession Agreement) and statutory duties (through primary and secondary

legislation) that are in each case conferred on the Office of Rail Regulation (the “**ORR**”) and/or the Secretary of State.



HLA	HS1 Lease	CA	Concession Agreement	TAA	Track Access Agreement
SAA	Station Access Agreement	RL	Retail Leases	IA	Interface Agreement
PSA	Power Supply Agreement	OA	Operator Agreement	SCA	Station Concession Agreement
EA	UKPN (EDFE) Suite of Agreement	CPC	Car Park Operator Concessions	LA	Lease Agreements
		DU	Domestic Underpinning	—	No contractual agreement with HS1 Ltd

Source: HS1

A diagram showing the main regulatory and contractual framework is provided above. Brief summaries of the regulatory and contractual frameworks are set out immediately below and more detailed descriptions can be found in “*Regulatory Framework and the Project Documents*”.

Regulation and relationships

HS1 is a sole supplier and so its stewardship of High Speed 1 is regulated by an independent regulator – the ORR. This regulation takes three principal forms:

- (a) approving the terms (including amendments thereto) of long term Track Access Agreements with TOCs;
- (b) periodically approving or determining the operational and maintenance costs that HS1 may incur and so the level of charges that HS1 can impose on TOCs in relation to those costs in Track Access Agreements as part of the overall charges levied in return for access to High Speed 1; and
- (c) enforcing (through notices and orders) HS1’s performance of certain of its obligations in the Concession Agreement (including its duty to manage the High Speed 1 infrastructure and meet certain minimum operational standards in making that infrastructure available).

Contracts and relationships

The Concession Agreement

The Concession Agreement is an agreement between the Secretary of State and HS1 pursuant to which, amongst other things, the Secretary of State grants HS1 a concession to operate, maintain and renew

High Speed 1 for the period to 31 December 2040. Whilst not a party to the Concession Agreement, the ORR has a duty to enforce HS1's compliance with certain obligations it has in the Concession Agreement.

Those obligations include:

- (a) a requirement in operating, maintaining and renewing High Speed 1 to meet certain minimum operational standards namely infrastructure capability – see *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Minimum Operational Standards”*; and
- (b) an asset stewardship duty that requires HS1 to use best practice to operate, repair and maintain High Speed 1 in a timely, efficient and economical manner – *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Asset Stewardship”*.

The enforcement procedure that the ORR must follow is set out in the Concession Agreement. Under that procedure, where HS1 is in breach of any relevant obligations, the ORR may issue enforcement orders that require HS1's compliance – see *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Role of the ORR”* and *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Enforcement and termination”*.

The ORR also performs an economic regulatory function under the Concession Agreement, agreeing or determining certain access charges that HS1 can levy from TOCs. In doing this, the ORR will review and ultimately approve or reject the asset management statement that HS1 proposes every five years that sets out HS1's plans for the operation, maintenance, renewal and upgrade of High Speed 1 in the next five years. See *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Role of the ORR”* and *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Concession Agreement – Economic regulation”*.

HS1 believes that it has positive relationships with the ORR. The ORR prepares an annual report on HS1 and the latest report from July 2012 can be found at: <http://www.rail-reg.gov.uk/upload/pdf/hs1-annual-report-2011-12.pdf>. It reports in summary that:

“We believe that HS1 Ltd has performed well during the year and we are pleased with the progress made in a number of work areas.”

The Domestic Underpinning Agreement

The Domestic Underpinning Agreement is a supplemental agreement to the Concession Agreement that sets out a collateral undertaking from the Secretary of State in favour of HS1 for the purpose of underpinning the payment of track and station access charges for domestic railway services on High Speed 1.

Under the Domestic Underpinning Agreement, following the termination of the LSER FTAA, the Secretary of State will pay HS1 sums where the level of domestic services being operated on High Speed 1 is not at least equivalent to a specified baseline level, expressed in terms of service frequency and pattern. The sums payable are equivalent to those track access charges that would have been payable to HS1 had the level of domestic services been at the specified baseline level.

The Operator Agreement

HS1 has outsourced its obligations to carry out operational, maintenance renewal and replacement activities under the Concession Agreement to NR (HS) under the Operator Agreement – see *“Regulatory Framework and the Project Documents – Overview of the Project Documents – The Operator Agreement”*. In return, HS1 pays NR(HS) a fixed price of circa £46m per annum (subject to

certain specified reopeners) and with a performance regime as described later in this section. There is also a provision for HS1 to market test this contract once during its lifetime. The option to market test must be taken in the first two years of any Control Period. In the months leading up to April 2012 therefore, HS1 considered whether or not to use that opportunity to market test. HS1 reviewed the market, but concluded at that time not to market test in return for agreeing with NR(HS) the following amendments to the Operator Agreement:

- (a) a discount of 10 per cent. has been applied to the fixed price that HS1 pays in years 3 to 5 of the current Control Period, less a fixed risk fee of £550,000 nominal per annum. 60% of this benefit is to be paid to the TOCs along with £600,000 across the three years to fund investment projects. See “*Overview of the Project Documents – The Operator Agreement – Payments – Discount*”;
- (b) the regulatory risk of setting the Operator Agreement element of the OMRC has been passed to NR(HS) for the Control Period between 2015 and 2020 (“**CP2**”) and 2020 and 2025 (“**CP3**”). Effectively NR(HS) will bear the financial risk on the Operator Agreement element of the OMRC charge if the ORR does not allow the full pass through of costs to the TOCs during this time; and
- (c) HS1 will share in any outperformance by NR(HS) during the last three years of CP2 and CP3, with HS1 and the TOCs receiving 20% and 30% respectively.

Subject to limitations, one overriding obligation of NR(HS) under the Operator Agreement, is to put HS1 in a position so that it is able to discharge its obligations under the Concession Agreement and as infrastructure manager under the Access Regulations.

The Operator Agreement performance regime penalises or rewards NR(HS) for its performance in carrying out operation and maintenance activities on behalf of HS1. Under this regime, NR(HS) pays HS1 sums for periods where the use of High Speed 1 is restricted or services are delayed (subject to certain carve outs and limitations) and, in either case, HS1 is obliged as a consequence to pay a TOC sums under that TOC’s Track Access Agreement. Conversely, HS1 pays NR(HS) sums for periods where the performance of High Speed 1 is above benchmark and HS1 receives payments from a TOC under that TOC’s Track Access Agreement as a consequence. See “*Regulatory Framework and the Project Documents – Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Performance Payments*”.

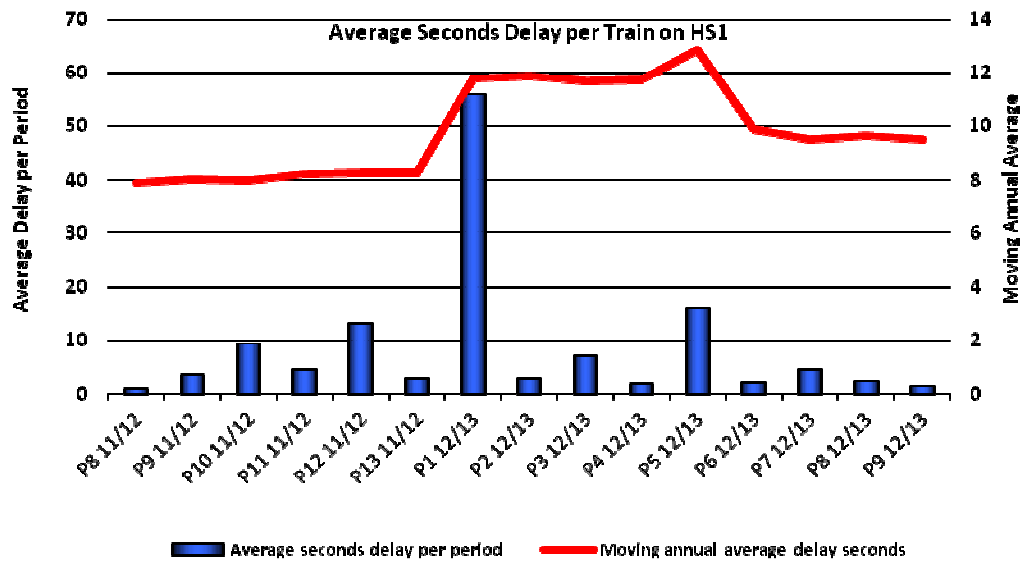
Existing framework agreements and other track access agreements

HS1 grants TOCs access to High Speed 1 by entering into Track Access Agreements with them. Track Access Agreements govern, amongst other things, the extent of access granted and how capacity will be allocated, the access charges that are payable for that access, the performance criteria and the payments that are made between HS1 and the relevant TOC depending on the availability and performance of High Speed 1.

The performance regime under FTAA’s and other Track Access Agreements provides for financial payments to be made by HS1 or by the relevant TOC depending on the performance of High Speed 1, relative to pre-determined thresholds. In broad terms, HS1 is liable to TOCs for ‘poor’ performance and TOCs pay HS1 for ‘good’ performance. Separately, the TOC is liable to HS1 for its poor performance and the poor performance of its trains that in each case impact on the performance of other TOCs using High Speed 1. The regime is designed to ensure that HS1 is not out of pocket for TOC poor performance. The performance regime is described in more detail in “*Regulatory Framework and the Project Documents – Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Performance Payments*”, however in summary it is based on delay per train attributable to a particular party and is for the most part back-to-back with the performance regime under the Operator Agreement described above – see “*The Operator Agreement*”.

The graph set out below shows the average seconds delay per train per the relevant period. Total penalties paid by HS1 under the performance regime totalled £462,000 for the 12 months ended 31

March 2012 and £349,000 paid from 1 April to 10 November 2012. The moving annual average delay of 9.5 seconds in November 2012 compares to the average delay reported on the Classic Network of 70 seconds for 2011.



Source: HS1. The bottom axis of the graph above shows the Railway Periods that commenced between October 2011 and November 2012.

* Delay caused by HS1 infrastructure only

Station Access Agreements and other station arrangements

HS1 grants TOCs access to the HS1 Stations under the terms of certain Station Access Agreements. Station Access Agreements govern, amongst other things, the extent of maintenance responsibilities, asset register responsibilities, access charges and performance payments for levels of station service/amenity.

Under certain station concession agreements, HS1 has appointed NR(HS) to be the operator of the HS1 Stations until 31 December 2086.

Power Distribution Agreements

HS1 is party to a variety of agreements with the UKPN Parties relating to the distribution of electrical power to High Speed 1. Under certain of these agreements, the UKPN Parties are liable to HS1, subject to certain exclusions, for power outages, caused by failures in such distribution affecting assets that are directly required for the commercial operation of trains on High Speed 1.

Property Leases

HS1 holds leases from the Secretary of State for the land on which High Speed 1 operates that is coterminous with the end of the HS1 Concession, with the exception of Ashford International – see “Regulatory Framework and the Project Documents – Overview of the Project Documents – Property Leases – The HS1 Stations – Ashford International Station Lease”. This land comprises the land on which the track is based and the stations at St Pancras International, Ebbsfleet International, Stratford International and Ashford International.

Direct Agreements

Certain termination rights under the main contracts described above are regulated by a series of direct agreements that are in place between (i) the security trustee for the lenders to HS1 and the relevant counterparties to the underlying contract and (ii) the Secretary of State and the relevant counterparties

to the underlying contracts. Termination is regulated under the direct agreements by first imposing advance notice obligations on the party that has the right to terminate the underlying project document and then a right of step in to prevent termination where this would otherwise be possible or novation where a third party has been indentified to carry on HS1's role.

HS1 Revenues

HS1 generates stable track and station access charges from international and domestic TOCs, with additional revenue earned through HS1's unregulated retail, advertising and car parking activities. Access charges consist of the IRC, the OMRC and traction power supply charges to recover the cost of power consumption per train; and station charges that recover the operation, maintenance and renewal costs of the HS1 Stations.

The table below provides a breakdown of revenue and EBITDA generated by HS1 for the 12 months ending 31 March 2012. Over the 12 months ending 31 March 2012, HS1 generated £270 million of revenue, with the IRC, OMRC, station charges and traction power charges accounting for 52%, 27%, 8% and 4% of revenue respectively. Other revenue comprising retail, advertising and car parking represented the remaining 9%. 91% of the EBITDA was generated from the IRC.

Segmented revenue and EBITDA for the 12 months to 31 March 2012

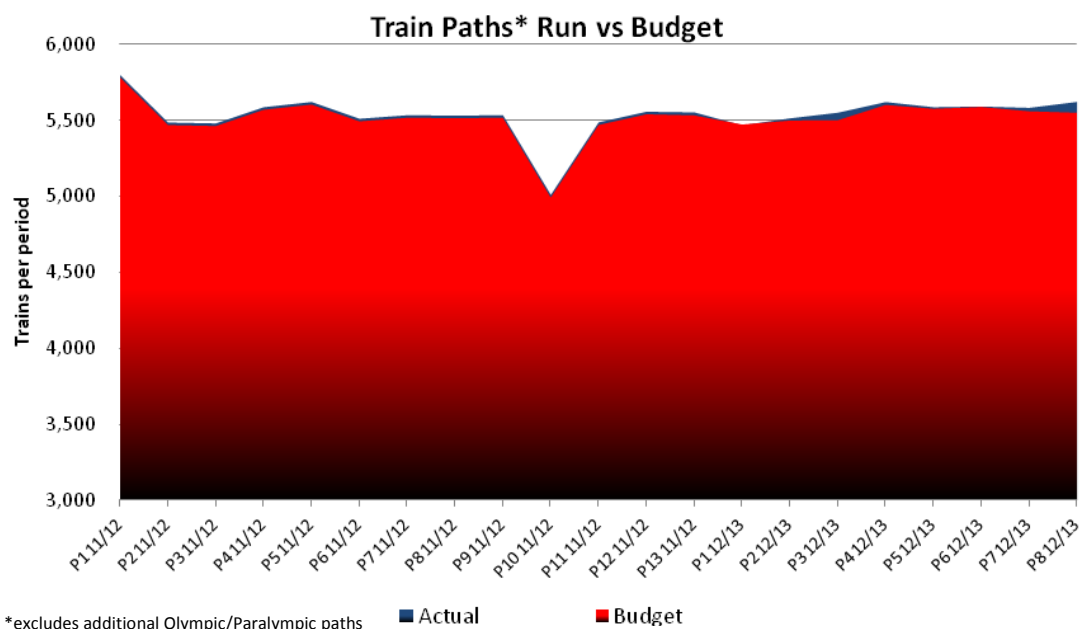
2011/12 (12 month period)	Revenue	-	Operating Costs	=	EBITDA	
Track	Domestic passenger Investment Recovery Charge (IRC) £97m				£141m	
	International passenger IRC £44m					
	Track Operations, Maintenance and Renewal (OMR) charges £73m		Track OMR costs £70m			£3m
	Power charges £11m		Power costs £11m			
Stations	Station charges £21m		Station costs £20m		£1m	
Unregulated activities	Retail & advertising £17m		Management/station costs £9m		£8m	
	Car parking £5m		Management costs £2m		£3m	
Other	£2m		£4m		(£2m)	
TOTAL	£270m		£116m		£154m	

The comparison of revenue to the prior year is as follows:

Type	Detail	2012 (£ million)	2011 (£ million)
Track	Domestic Passenger IRC	97	89
	International Passenger IRC	44	42
	Track OMRC	73	72
	Power Charges	11	10
	Station Charges	21	19
Unregulated activities	Retail & Advertising	17	16
	Car Parking	5	4
Other		2	2
Total		270	254

For the 12 months to 31 March 2012, approximately 84% of HS1's revenues were derived from access charges paid by LSER and EIL, which operate domestic and international passenger train services respectively on High Speed 1. HS1 has a "dual till" structure pursuant to which its retail, car park and other unregulated income is not to be used to offset the calculation of access charges or station charges. The access charges levied by HS1 under the FTAA's with LSER and EIL are regulated under the Concession Agreement and the Access Regulations. The access charges charged by HS1 under the Station Access Agreements with LSER and EIL are also subject to certain regulatory constraints, as well as contractual constraints, including under the HS1 Leases. The remainder of HS1's revenues come from unregulated sources, primarily retail leases, advertising and car parking (and from lettings of Temple Mills Depot and Orient Way Sidings to EIL). The Secretary of State has entered into a Domestic Underpinning Agreement in relation to HS1's revenues in respect of domestic passenger rail services on High Speed 1. See "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Domestic Underpinning Agreement*".

Timetabled services on which HS1 is paid are determined a year in advance from December to the following December. This provides high visibility to HS1 of the forecast train paths for the following 12 months as highlighted in the following graph:



Source: HS1. The bottom axis of the graph above shows the Railway Periods that commenced between April 2011 and October 2012.

FTAAs and other Track Access Arrangements

HS1's revenues from railway passenger services are generated from access charges paid by TOCs which have purchased capacity on High Speed 1 in order to operate those services. The payment of access charges and the allocation of capacity are governed by the terms of separate track access agreements between HS1 and each TOC which include FTAAs ("**Track Access Agreements**"). Except for the purposes of emergency access, every TOC must enter into a Track Access Agreement. Track Access Agreements which reserve capacity on High Speed 1 for more than one timetable period are FTAAs and are subject to ORR approval under the Access Regulations. A timetable period is a period of 12 months running from December to December each year (a "**Timetable Period**").

Under Track Access Agreements, TOCs are liable to pay the following access charges:

- Investment Recovery Charge "**IRC**" (52% of revenue and 91% of EBITDA in 12 months to 31 March 2012) – the IRC is designed to recover part of the construction costs of the HS1 project over the term of the HS1 Concession and, in the case of passenger TOCs, is charged as an amount for each timetabled minute that a train is to spend on High Speed 1, regardless of whether the TOC actually runs such services. The amount of IRC was agreed between the relevant parties in 2010 at £69.57 per minute at February 2009 prices and is indexed (up and down) in accordance with RPI. HS1 has the option to discount below the cap on a non-discriminatory basis in the event it is of commercial benefit to HS1, such as attracting additional services to the railway. Discounts are subject to an ORR approved discount policy. The only discounts currently offered are to EIL to support London to Marne La Vallee services up to December 2013 and London to Brussels services up to December 2016. In order for these discounts to be payable, EIL must first operate a guaranteed number of services and to provide HS1 with data concerning the demand for those services. IRC is not subject to Periodic Review or benchmarking by the ORR. IRC relating to domestic passenger services is supported by the domestic underpinning arrangements – see "*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Domestic Underpinning Agreement*". This underpinned IRC accounted for approximately 69% of the total IRC generated in the 12 months to 31 March 2012 (source: HS1).
- Operational, Maintenance and Renewal Charge "**OMRC**" (27% of revenue and 2% of EBITDA – 12 months to 31 March 2012) – the OMRC is designed to reimburse HS1's cost of operating, maintaining and renewing the track:
 - OMRC is agreed or determined by the ORR every five years and then apportioned between TOCs on the basis of a charge for each minute that a train is timetabled to spend on the track. The OMRC is subject to a 5-year review by the ORR with the second Control Period review to take effect from 1 April 2015. Most of the per train per minute charge is subject to annual indexation based on RPI plus 1.1% in the current Control Period. There is also a pass-through cost element of OMRC which is charged at actual cost. OMRC is payable based on timetabled train services, regardless of whether the TOC actually runs such services. In the absence of an international TOC, the Aggregate OMRC would be allocated to the domestic TOC alone proportionate to the services it continues to operate. As described below, the Secretary of State has entered into a Domestic Underpinning Agreement in relation to HS1's revenues in respect of domestic passenger rail services on High Speed 1 from the end of the current LSER franchise and for the remainder of the HS1 Concession. In the absence of both a domestic and international TOC, the Secretary of State's underpinning payments would, once triggered, include the amount of OMRC payable by a notional domestic TOC and would therefore extend to cover the entirety of the proportionate Aggregate OMRC;
 - OMRC is split into two categories; "*at risk*" elements and "*at cost*" elements:
 - "*at risk*" elements comprise approximately 85% of the OMR Costs incurred in the 2011/12 financial year, being NR(HS) fees under the Operator

Agreement of £49m and HS1 costs of £11m. Under certain circumstances, HS1 can request an Interim Review if there has been a significant and material change within a Control Period – see “*Overview of the Regulatory Framework – Operations Maintenance and Renewal Charge - Interim Reviews*”. Additionally, within Control Periods there is an automatic reset in the event that there is a change in the number of timetabled trains of at least 4% (increase or decrease in services) for a new Timetable Period, ensuring that, in the case of increases in services above this threshold, HS1 recovers its costs – see “*Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Changes in volume impacting access charges*”. The majority of at risk costs represent costs under the Operator Agreement with NR(HS). As highlighted in “*Overview of the Project Documents – The Operator Agreement – Operator’s obligations - Obligations*”, the price risk on this element of OMRC rests with NR(HS) until 31st March 2025. HS1 has the option to market test the Operator Agreement after the end of the second Control Period (2020); and

- “*at cost*” elements of the OMRC charge cover cost elements which are difficult to control and subject to potential material variation, in the 2011/12 financial year equating to £11 million. These costs are passed through to train operators on an estimated basis, with an adjustment to actual costs each year; and
- the majority of OMR Costs either pass through to the TOCs or are backed off with supplier contracts. HS1 generated a net £3 million EBITDA contribution from OMRC in the 2011/12 financial year and is allowed to retain any OMRC outperformance within a Control Period;
- Capacity Reservation Charge – the capacity reservation charge is charged on the capacity reserved by a TOC but not timetabled. The capacity reservation charge per passenger train is set at 25% of the full IRC per train path. HS1 earned £411,000 from this charge in the year ended 31st March 2012;
- Traction power supply (“**EC4T**”) – this charge allows HS1 to recover the cost of traction electricity on a pass through basis to the TOCs. EC4T is paid four-weekly in arrears and an adjustment procedure ensures that HS1’s costs are recovered in full;
- Congestion tariff – this charge applies in circumstances where High Speed 1 becomes congested and a charge is levied in accordance with the Access Regulations. There is no congestion tariff levied under current Track Access Agreements;
- Other services charge – HS1 may charge for bespoke services provided by HS1 to particular TOCs. There are no charges levied for bespoke services under current Track Access Agreements;
- Freight supplement – this is an additional charge levied on domestic franchised passenger TOCs in respect of costs that are otherwise not recoverable under the freight charging arrangements;
- Carbon costs – this is a charge to recover the cost of the carbon reduction commitment incurred by HS1; and
- IRC, OMRC and capacity reservation access charges are payable in advance of the commencement of each “**Advance Period**”. There are four Advance Periods per year divided roughly into quarters. All other access charges, other than any amount due from relevant TOC as part of the annual wash-up (the reconciliation of certain reimbursable costs when the factual position is known), are payable four weekly in arrear. This reflects the division of the railway

year into 13 four-weekly “periods”, with the first and last period of each railway year flexing up or down by up to seven days.

Subject to a cap (3%) of aggregate IRC/OMRC payable in the relevant financial year, both HS1 and the TOC are required to compensate each other for their respective performances falling below a certain level, based on defined criteria, at a fixed rate which is indexed. See “*Regulatory Framework and the Project Documents – Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Performance Payments*”.

Station Access Agreements (8% of revenue and 1% of EBITDA – 12 months to 31 March 2012)

A Station Access Agreement grants a passenger TOC permission to use the relevant HS1 Station, subject to certain exceptions and limitations. The Access Regulations do not require the ORR to approve Station Access Agreements in relation to HS1. Under any Station Access Agreement (except the agreement with First Capital Connect (“**FCC**”) and East Midlands Trains (“**EMT**”) in respect of St Pancras International), a TOC is liable to pay the following access charges:

- Long Term Charge (“**LTC**”) and Qualifying expenditure (“**Qx**”) – the LTC and Qx access charges reflect HS1’s costs for operation, maintenance, repair and renewal activities at each HS1 Station including in relation to traction supply equipment, signalling equipment, gas, water and electricity utility supply equipment, HS1’s temporary buildings, lift installations and escalator installations. The access charges are allocated to the relevant TOC based on a combination of the number of vehicle departures and square footage; and
- Exclusive charges – these are the charges to be paid by the relevant TOC for any bespoke services provided by HS1 to such TOC at the relevant HS1 Station, such as a charge for shore supplies (water and electricity) charged to EMT.

Under each Station Access Agreement, the relevant TOC is liable to pay exclusive charges of the nature set out above, plus common charges calculated on the basis of specified percentages of common LTC and Qx access charges for two different geographical zones. The Station Access Agreement with FCC is in relation to diversionary access only and access charges under that agreement are levied on an amount-per-vehicle basis.

Under the Station Access Agreements there is no provision for IRC to be recovered. The charges under the Station Access Agreements are effectively a pass through and the EBITDA contribution of approximately £1m represents a management fee earned by HS1 for running the HS1 Stations.

Retail, Advertising, Car Parking and Other Income (9% of revenue and 6% of EBITDA – 12 months to 31 March 2012)

In addition to the regulated income earned by HS1 through domestic and international passenger services and freight services, HS1 generates a portion of its income through the provision of unregulated services, comprising retail leases, advertising and car parking facilities and lettings of Temple Mills Depot and Orient Way Sidings to EIL.

Retail income at St Pancras International forms the majority of HS1’s total retail and advertising income with annual footfall in the financial year 2012 of 48 million (which represents an 8% increase from the financial year 2011) (source: Shoppertrak). The leases are generally turnover leases under which retailers pay rent as a percentage of turnover subject to a minimum guaranteed rent. The minimum guaranteed rent for each lease is fixed, subject to rental reviews, over the length of the relevant lease. Retailers also pay a service charge which represents a contribution to cover station operations and maintenance costs. This charge is set out in the retailers’ leases as a fixed amount per square foot, subject to indexation. HS1’s rental lease, advertising and service charge income for financial year 2012 was £17.1m, of which £16.7m was generated from retail and catering units, advertising and service charge incomes at St Pancras International.

All units at St Pancras International are let on contracted out leases which allow the landlord to re-let to alternative retailers on lease expiry. Leases typically follow a three year cycle, with lease terms normally being a multiple of three years. The length of leases varies by retailer from three to 15.5 years. Longer leases include rent review provisions.

HS1 has sub-contracted the management of the retail space outside the restricted international zone at St Pancras International, Ebbsfleet International and Stratford International to NR(HS) under the Station Concession Agreements pursuant to which NR(HS) receives a percentage of retail and other commercial income.

HS1 generates income from the car parks at St Pancras International, Ebbsfleet International and Ashford International, the operation of which is sub-contracted to CP Plus Limited on a short term basis. The car park and its associated income at Stratford International is expected to be transferred to HS1 on 1st April 2013 following its use by the London Organising Committee for the Olympic Games. HS1 has entered into a revenue sharing agreement with LSER in relation to the Ebbsfleet International car parks whereby it is paid an annual fee by LSER. LSER is entitled to the revenue received in respect of the Ebbsfleet International car parks up to the amount paid to HS1 in respect of the annual fee. Revenue in excess of the annual fee is then used to reimburse HS1's costs incurred in managing the car parks, with the remaining revenue being shared 65:35 in HS1's favour as per the revenue sharing agreement.

HS1 has agreed to make available a minimum of 120 car parking spaces at Ashford International to EIL free of charge for use by EIL's employees based in Ashford, Kent.

HS1 has subleased the Temple Mills Depot, and the property known as the Orient Way Sidings, both near Stratford International, to EIL for a term expiring in 2040. Both leases are subject to periodic rental uplifts. In addition, HS1 is entitled to share 40% of the net income made by EIL in respect of the use of Temple Mills Depot by third parties.

Rail Services on High Speed 1

Competition

The principal factors relevant to competition between international high speed rail and alternative modes of travel are price, journey time, punctuality, reliability, frequency and other qualitative factors (such as convenience and comfort). In the leisure markets, price is the most important competitive factor. In the business sector, door-to-door journey time and frequency are the most important competitive factors. Principal competitive advantages of TOCs of international passenger services on High Speed 1 are the central location of railway stations in London, Paris and Brussels, service reliability and, to a lesser extent, schedule flexibility and the fact that the journey is less fragmented than other options.

Air travel is the main source of competition for services on High Speed 1 in respect of international passengers. International TOCs are driven to provide a minimum timetable frequency for business travellers who are particularly sensitive to journey time and schedule flexibility. Price and yield management techniques are used to steer leisure travellers to less crowded trains. Cross-channel services by ferries and Eurotunnel's shuttle which allow passengers to travel with their cars between the UK and Continental Europe also provide competition. Ferry and shuttle services also allow passengers to travel by coach. Coach services are slower than high speed rail but offer lower prices. EIL has invested in new trains which are on order for 2015 and Deutsche Bahn has also ordered rolling stock to operate services from Frankfurt, Cologne and Amsterdam, through Brussels to London on the PBKAL route, part of the trans-European transport network endorsed by the European Council. Journey time improvements and new services have previously stimulated significant demand increases.

The primary competition for the domestic passenger services on High Speed 1 comes from rail services on the Classic Network. Domestic services on HS1 provides significantly shorter journey times as well as higher reliability and comfort, albeit at a higher price. In addition, LSER is obliged to operate

passenger services in accordance with the services that are specified in the IKF Franchise. Those specified services anticipate that LSER operates a minimum level of services on High Speed 1.

Where there is competition from express coaches, this is limited to operations mainly during peak hours and car travel is not a significant competitor due to the lack of, and cost of, parking, the level of congestion and, the congestion charge in central London. Access charges for HS1 are on a “per train” basis and not “per passenger” with long-term demand growth likely to be driven by regeneration benefits of the surrounding area and net positive migration in the Kent area.

Third party domestic TOCs are permitted access to the Classic Network and High Speed 1, subject to approval by the ORR. In particular, potential third party TOCs would have to satisfy the ORR that proposed new services would pass the ‘not primarily abstractive’ test. This means that new services which reduce the revenue of incumbent TOCs would have to offer compensating benefits in order to be approved.

Domestic passenger services

Domestic passenger services on High Speed 1 are currently operated by LSER until April 2014 as part of the IKF Franchise. LSER commenced operating the full high speed domestic service in December 2009 following a period of lower frequency preview services from June 2009. The introduction of high speed domestic passenger services has resulted in time savings of approximately 50%, depending on the final destination for domestic commuters when compared with the journey times on the Classic Network. LSER reported carrying 7.2m passengers on approximately 53,000 high speed services in its first full year of high speed operation to December 2010 which grew to over 9 million per year to December 2012, representing a compound annual growth rate of 12% (a growth of 14%). In the financial year to March 2012, LSER ran approximately 600 services above the baseline underpinned service to satisfy off-peak opportunities (e.g. weekend service for shoppers). In December 2012, LSER announced that they now had over 9 million passengers per year on the high speed service.

There are two domestic passenger service groups using High Speed 1 to St Pancras International: the first serves East Kent via the domestic station at Ashford International and the second serves North Kent, Gravesend and the Medway towns via Ebbsfleet International. All domestic passenger services stop at Stratford International. In addition to services on High Speed 1, the IKF Franchise provides services on the Classic Network throughout Kent, parts of East Sussex and South East London. The IKF Franchise specifies a minimum service level commitment for services on High Speed 1 which is 1,024 train services per week, which equates to 52,788 services per annum which are approximately equally divided between the East and North Kent routes. This is the level of domestic passenger services below which financial compensation may be available from the Secretary of State under the terms of the Domestic Underpinning Agreement. See “*Regulatory Framework and the Project Documents – Overview of the Project Documents – The Domestic Underpinning Agreement*”.

Since 1 April 2006, the IKF Franchise has been held by LSER, a joint venture between Go-Ahead (65%) and Keolis (35%).

International passenger services

International passenger services on High Speed 1 are currently operated by EIL, principally serving Paris and Brussels out of St Pancras International via Ebbsfleet International and Ashford International and through the Channel Tunnel. EIL has been operating services to Paris and Brussels since 1994. In 2011, EIL carried 9.7 million passengers on approximately 18,000 services (an increase of 2% in passenger numbers on 2010). For the first half of 2012 EIL has reported a further increase of approximately 2% on the same period in 2011. EIL has at least an estimated 80% market share of point-to-point travel between London, Paris and Brussels (Source: EIL (2011)).

The number of services being run by EIL is mainly driven by passenger demand, but also by the need to provide schedule flexibility to business travellers. The fastest trains now travel between London and Paris in 2 hours 15 minutes and between London and Brussels in 1 hour 51 minutes.

EIL's shareholders are the French state-owned railway company Société National des Chemins de fer Français ("SNCF") (55%), the British state-owned railway company London and Continental Railways Limited ("LCR") (40%), and the Belgian state-owned railway company Société Nationale des Chemins de fer Belges ("SNCB") (5%).

Following the liberalisation of the EU passenger rail market in January 2010, other TOCs are entitled to apply for access to operate international passenger services on High Speed 1. In the UK, international TOCs have the right to use the High Speed 1 infrastructure to connect to existing and new UK and European markets. Any such further international services on High Speed 1 will be operated as open access services with no public service obligation or subsidy. Deutsche Bahn has publically announced its intention to introduce new services between St Pancras International and Frankfurt, as well as Amsterdam, via Brussels from 2016. HS1 is also in discussions with a number of other parties who are interested in operating international train services along High Speed 1 and has signed confidentiality agreements for the development of particular schemes with two organisations.

There is significant surplus capacity on High Speed 1 to support growth in train paths.

Freight services

High Speed 1 was built primarily for high speed passenger trains, but also has the ability to accommodate freight.

The Access Regulations oblige infrastructure managers to provide access to international rail freight. Freight services on High Speed 1 use part of the track at Ripple Lane Sidings, which is not on the main running lines for passenger services. DB Schenker is operating night freight services on High Speed 1 of four services a week between London and Poland.

The current charging regime for conventional freight does not include any investment recovery charge similar to the IRC or contribution to common costs and thus only allows HS1 to recover, at most, the costs to HS1 of freight services being operated on High Speed 1. HS1 is currently offering a discounted price to night-time conventional freight until March 2015. On this basis, the full costs to HS1 of operating freight services will not be covered by freight TOCs (and the shortfall will be passed on to franchised domestic passenger TOCs through the freight supplement that is chargeable under the Access Regulations).

HS1 Infrastructure

Having acquired the HS1 Concession, HS1 has sufficient provision to cover the remaining liability for the costs of the construction of the track and station infrastructure of High Speed 1. In addition to standard overhead and employment costs, HS1 has ongoing liabilities with respect to the power supply and operation, maintenance and renewal of the infrastructure.

Track

High Speed 1 has been designed to carry high speed passenger and freight services. The maximum rated operating speeds for international passenger services are 300 kph on Section 1 (Southfleet Junction to the Channel Tunnel) and 230 kph on Section 2 (St Pancras International to Southfleet Junction). The current maximum rated operating speeds for domestic passenger services are 230 kph on both sections of High Speed 1 taking account of current rolling stock. The maximum rated operating speeds for freight are 140 kph on both sections of High Speed 1 for conventional freight trains.

The track has a number of connections to the Classic Network, including at St Pancras International, Fawkham Junction, Ebbsfleet International, Ashford International, Cheriton, Ripple Lane near Dagenham, Stratford International as well as a connection to Dollands Moor, which is owned by DB Schenker.

High Speed 1 has been available for service every day since its commencement of operations in 2003 (Section 1) and 2007 (Section 2).

The HS1 Stations

HS1’s concession under the Concession Agreement and related contracts includes the operation, maintenance, repair and renewal of the HS1 Stations. The operation, maintenance, repair and renewal of three of the HS1 Stations (St Pancras International, Stratford International and Ebbsfleet International) have been sub-contracted to NR(HS) until 2086. The Secretary of State has undertaken to take over the Station Concession Agreements on expiry of the Concession Agreement (see “*HS1 Infrastructure Management – Station Concessions*” below). The operation, maintenance, repair and renewal of Ashford International has been sub-contracted to EIL. The HS1 Stations generate retail, advertising and car parking income for HS1.

- St Pancras International

The station has thirteen platforms comprising nine high-speed platforms, six for use by international services and three for use by high-speed domestic services from Kent, as well as four platforms for use by EMT. A sub-surface station on the Thameslink route operated by FCC and, serving the line between Brighton and Bedford, sits underneath St Pancras International and is leased to Network Rail Infrastructure Limited (“**NRIL**”).

- Stratford International

Stratford International is located in East London near Canary Wharf and became operational shortly before the introduction of the full LSER high speed domestic service in December 2009. The station has four platforms: two for use by domestic services and two by international services (although there are currently no international services calling at this station).

- Ebbsfleet International

Ebbsfleet International is located near Dartford in North Kent. The station has six platforms: two for use by international services and four for domestic services.

- Ashford International

Ashford International is located in East Kent. Only international passenger services call at the station’s two platforms. Ashford International is adjacent to, but distinct from, Ashford station, which serves domestic passenger services. HS1 leases Ashford International and has appointed EIL to manage the international section for a three year term commencing on 9 July 2010. The domestic station is owned by NRIL and operated by LSER.

The table below shows the various capacities of the stations discussed above:

	St Pancras International	Stratford International	Ebbsfleet International	Ashford International
High Speed Platforms:				
International	6	2	2	2
Domestic	3	2	4	2
Classic Platforms	4	-	-	-
Retail (Sq. ft)	90,000	3,337	2,776	3,558
Car Park Spaces	324	850	5,145	1,800

Source: HS1

Ancillary rail infrastructure

In addition to the track and the HS1 Stations, High Speed 1 includes (but is not limited to) the following ancillary railway infrastructure which is required for the operation of High Speed 1:

- Ashford International Control Centre – This controls the day-to-day HS1 railway operating activities, including traffic control, signalling, electrical and communications. The HS1 operating activities are located in a shared facility within the NRIL-owned Ashford International Control Centre;
- Signalling system – The signalling system dictates the interlocking detection and spacing of trains to maintain safe train operations;
- Communication systems – These comprise the data transmission network, fibre optic network, cab secure radio, general purpose radio system, telephone network, closed circuit television, radio propagation system and emergency response organised radio systems;
- Control systems – The two key control systems are the ventilation control system for the tunnel sections and the electrical and mechanical management and information system which supervises and controls various types of field equipment;
- Traction power – Traction power for High Speed 1 is supplied by the 25kV/ 50Hz overhead catenary system;
- Singlewell infrastructure maintenance depot – This provides facilities for maintenance staff and rail plant for maintenance of High Speed 1, headquarters and office facilities for NR(HS) and storage;
- Temple Mills depot – The depot provides facilities for rolling stock on HS1, and is currently leased to EIL, which bears the cost of operating and maintaining the depot. HS1 has paid EIL £2 million as a capital contribution to the costs of restructuring works required at Temple Mills depot to provide facilities for access by new international trains to be maintained at the depot. LSER also uses Temple Mills depot under a contract with EIL. Additional capacity is available at the depot and EIL has an obligation to accommodate new requests for access subject to the constraints of the facility;
- Orient Way Sidings – This is a train stabling facility adjacent to the Temple Mills Depot. It is held by HS1 on a lease from the Secretary of State, separate from the HS1 Leases for a term expiring on the same date as the HS1 Leases. The Secretary of State has also granted EIL a lease of the train stabling facility until 2086, which is subject to the lease granted by the Secretary of State on the same day to HS1; and
- Power supply infrastructure – The principal feeder stations and substations which form the main electrical supply network are leased to the UKPN Parties, which is responsible for their maintenance and renewal (where necessary) pursuant to the UKPN Agreements.

HS1 Infrastructure Management

HS1 has outsourced the operation, maintenance and associated safety functions for the High Speed 1 infrastructure, while retaining commercial control and the setting of asset policy and strategy. Responsibility for the operation and maintenance and (save in limited circumstances) the Renewal and Replacement of High Speed 1 railway infrastructure (broadly, the track assets, less the electricity power supply equipment), and the management of St Pancras International, Stratford International and Ebbsfleet International have been sub-contracted to NR(HS). Responsibility for the operation and maintenance of power distribution systems lies with the UKPN Parties pursuant to the UKPN Agreements, and responsibility for the operation and management of Ashford International has been sub-contracted to EIL.

Renewals & Replacements

Planned Renewals and Replacements are required to be specified in the relevant Five Year Asset Management Statement produced by HS1 (or, in the case of additional Renewals and Replacements, the relevant Asset Management Annual Statement). (See “*Regulatory Framework and the Project Documents – Overview of the Project Documents – the Concession Agreement – Asset Stewardship*”.) HS1 is required to credit the Renewal and Replacement elements of OMRC to the Renewals Escrow Account, secured in favour of the Secretary of State, pending the expenditure of such amounts in carrying out the relevant Renewals and Replacements. A similar scheme applies to the LTC payable under the Station Access Agreements pursuant to the HS1 Lease.

Specified Upgrades

The Concession Agreement creates scope for HS1 to undertake major upgrades to the signalling, trackform and control systems of HS1, excluding the HS1 Stations. Specified Upgrades and other upgrades may be funded through Government grants but there is no commitment for such grants to be provided (although in the case of a Specified Upgrade requested by the Secretary of State, HS1 need not proceed with that upgrade if no grant is available or it is not satisfied with the amount of the grant). If a Specified Upgrade or other upgrade is not funded through a grant, the charging framework allows for an additional IRC to be levied to recover the costs (including the cost of financing) of further investments in relation to High Speed 1 or any related facilities. Such additional IRC would be subject to ORR approval. There are no plans for any Specified Upgrades within the current Control Period ending March 2015.

HS1 is putting in place a mechanism that will permit it to incur further bank or bond debt for the purpose of meeting additional capital expenditure requirements as well as the costs of finance. The ability to incur additional debt will be subject to satisfying certain loan life cover ratios. The mechanism, if implemented, would be on terms that:

- (a) if the finance is to be secured, additional creditors would be, required to accede to intercreditor arrangements; and
- (b) if the debt is to be hedged, that hedging is to be undertaken in accordance with a prescribed hedging policy.

It is anticipated that the costs of operating and maintaining any additional or amended assets required by any such upgrade would be met by an adjustment to OMRC.

Operations & Maintenance

HS1 has subcontracted to NR(HS) its obligations under the Concession Agreement in relation to the operation, maintenance, Renewal and Replacement of certain of the HS1 railway infrastructure assets (broadly, the track assets, less the electricity power supply equipment). In addition, NR(HS) will perform a number of HS1’s obligations, and exercise certain of HS1’s rights, under the related agreements including the Track Access Agreements. NR(HS) is owned directly by NRIL, and ultimately by Network Rail Limited, and was set up specifically to provide the operation and maintenance and Renewal and Replacement services in relation to High Speed 1. In broad terms, NR(HS)’s principal obligation under the Operator Agreement is to put HS1 in a position so that it can comply with its obligations under the Concession Agreement as they relate to the Operator Agreement assets, and perform HS1’s obligations under the Track Access Agreements and other agreements which relate to the operation and maintenance of the railway assets (in each case, subject to reservations and limitations).

Station Concessions

HS1 has appointed NR(HS) to be the operator of St Pancras International, Stratford International and Ebbsfleet International until 31 December 2086 under certain concession agreements, (“**Station Concession Agreements**”). EIL has been appointed to be the operator of Ashford International under

a separate station management agreement (the “**Ashford International Station Management Agreement**”) until July 2013. The restricted international zones at St Pancras International and Ebbsfleet International are operated and maintained by EIL under the HS1 Station Access Conditions. Under these contracts, NR(HS) and EIL have responsibility for the station operations and maintenance at their respective stations.

Electrical Distribution System

The UKPN Parties are responsible for the operation, maintenance and (where necessary) renewal of the electricity distribution systems for High Speed 1, including certain assets in relation to Temple Mills Depot, the Thameslink Box and the Lofts at St Pancras International.

Environmental

HS1 is subject to various laws and regulations relating to the protection of the environment, including in relation to energy usage and efficiency. HS1 has adopted an environmental and sustainability policy and an environmental management system.

Sustainability

High Speed 1 has been built to modern standards and the infrastructure incorporates high standards of environmental mitigation. Mitigation has been provided in accordance with relevant consents under the CTRL Acts. This has been achieved through appropriate construction method and design, incorporating elements such as: noise barriers and bunds and other noise mitigation; ground borne noise and vibration mitigation such as soft rail pads in tunnel sections; surface and groundwater protection through contamination remediation, track bed sealing, and balancing ponds; and landscape planting and seeding. Maintenance of the environmental mitigation is a key responsibility for HS1.

All HS1 activities are subject to various laws and regulations relating to the protection of the environment. HS1 has adopted a sustainability policy and has a sustainability plan. The plan covers six areas: energy; waste; biodiversity; water and pollution; sustainability of rail; and delivery and communication, and each section incorporates objectives and targets over the 5-year plan. The plan has been adopted by NR(HS) and progress, which is managed through the environmental management system, is on programme.

Risk Management Systems

HS1 has developed a risk management framework to identify, assess and manage the risks associated with its business. HS1 is directly responsible for managing these risks, other than operational risks, which are delegated to NR(HS) under the Operator Agreement, and risks relating to health and safety, which are the responsibility of NR(HS) as holder of the safety authorisation under the ROGS with the exception of Ashford International, where EIL is also the holder of safety authorisation under the ROGS. The risk management framework involves identifying risks and, where considered appropriate, entering the risks on HS1’s risk register. Each risk is assessed as to the probability of the risk event occurring and the impact if the risk event were to occur, evaluated in terms of the cost to the business and the effect on HS1’s reputation. In respect of risks which are entered on the risk register, HS1 seeks to identify appropriate responses and mitigation measures. There is a regular review of the effectiveness of planned responses for the identified significant business risks and, where appropriate, the capture of additional risks on the risk register. The risk framework also includes business continuity planning to minimise the disruption to HS1’s business in the event of significant risk events occurring.

In addition, HS1 covenants in the CTA to comply with relevant environmental laws and to obtain and ensure compliance with all relevant environmental permits where failure to do so would have or is likely to have a material adverse effect.

Safety

The safety regulatory regime applicable to HS1 is established by the ROGS. The railway specific nature of the duties and responsibilities under the ROGS are underpinned by broader health and safety responsibilities set out in the Health and Safety at Work Act 1974 and various health and safety regulations made under it.

The ROGS impose duties and responsibilities on infrastructure managers and train operating companies. For the purpose of the ROGS, NR(HS) is the infrastructure manager of HS1 (and is designated as such under the Operator Agreement) and in this capacity, holds a current safety authorisation issued under the ROGS by the ORR and has prime responsibility under law and regulation for the safe operation of HS1. NR(HS) provides a four weekly report which includes a section on safety-related matters.

High Speed 1 was designed and constructed to be an order of magnitude safer than the Classic Network under the “as low as reasonably practicable” railway safety criteria regulated by the ORR. Separately, safety levels on Great Britain’s railways have improved markedly over the last 10 years. NR(HS) is a very experienced operator of railway infrastructure and EIL and LSER have operated passenger services in the UK for 18 and 16 years respectively.

State Aid

The High Speed 1 construction project has been the recipient of Government support on various occasions since its inception. State aid notifications submitted by the Government to the European Commission have resulted in six state aid decisions in relation to the High Speed 1 project in the period from 1994 to 2009. In each of these decisions, the European Commission has concluded that the notified measures were state aid compatible with the common market.

Directors and Senior Management

Management and Employees

The directors and company secretary of HS1 and their respective business addresses and principal activities are set out below:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Richard Gooding	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Colin Hood	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
John McManus	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Darrin Pickett	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Sebastien Sherman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Olivia Steedman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Lucy Lazzeri	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	General Counsel & Company Secretary

Management

Details of HS1's management team is set out below.

Rob Holden – Chairman

Rob Holden was previously Chief Executive at CrossRail from 2009-2011. Prior to that Rob was Chief Executive of London & Continental Railways (LCR), a position he held from January 1999, where he oversaw the construction of HS1. He was also Chairman of Eurostar (UK) Limited and a director of Eurostar Group. Rob is a Chartered Accountant who qualified with Arthur Young in Manchester before moving to the Vickers Shipbuilding Group in Barrow-in-Furness where he worked for 13 years.

Nicola Shaw – Chief Executive Officer

Nicola previously served on the Board of FirstGroup PLC, leading the company's European bus division. Before joining FirstGroup, Nicola was Managing Director, Operations, at the Strategic Rail Authority.

Graeme Thompson – Chief Financial Officer

After qualifying as a chartered accountant at Pricewaterhouse Coopers, Graeme gained extensive experience in the energy sector working for Powergen and subsequently E.ON UK where he became the UK Financial Controller. Prior to joining HS1, Graeme was the Finance and Regulation director for E.ON Central Networks, the second largest electricity distribution company in the UK.

Kevin Beauchamp – Engineering and Assets Director

Kevin is a chartered civil engineer with nearly 38 years' experience delivering railway infrastructure maintenance and major project works. Previously the Managing Director of AMEC SPIE Rail Ltd, he has held senior positions in both the private and public sector.

Wendy Spinks – Head of Revenue Development

Wendy has over 18 years' experience in Retail management, including 15 years within the transport sector. The last 10 years of which was with BAA at Heathrow Airport as Head of Retail, a period that included the retail development of Terminal 1 and Terminal 3, as well as the retail readiness for Terminal 5 opening.

Richard Martin – Business Services Director

Richard has experience in the provision of programme and business management solutions in various industry sectors and across various geographies (including the UK, Mainland Europe, North Africa and the Middle East).

Lucy Lazzeri – General Counsel and Company Secretary

After qualifying as a solicitor, Lucy spent a number of years in private practice. Prior to joining HS1, Lucy gained extensive rail industry experience as a senior legal advisor to Porterbrook Leasing Company Limited, one of the UK's rolling stock operating leasing companies.

Employees

As at November 2012, there were 34 full-time employees, six part-time employees and three contractors.

Selected Financial Information

The following selected financial information should be read in conjunction with the audited accounts of HS1 for the 15-month period ended 31 March 2012 and the unaudited six month accounts of HS1 for the period ended 30 September 2012 which are reproduced in the section titled “*Financial Statements of HS1 and Holdco*” below.

Profit and Loss

	6 months to 30 September 2012	30 June 2011	15 months to 31 March 2012
	£m (unaudited)	£m (unaudited)	£m (audited)
Turnover	144.7	129.8	340.6
Operating expenditure			
Reversal of impairment of fixed assets	-	-	527.5
Other operating expenditure	(107.1)	(92.6)	(234.3)
Operating profit on ordinary activities before interest	37.6	37.2	633.8
Interest payable	(72.1)	(64.1)	(172.0)
Interest receivable	-	-	0.3
(Loss) / profit on activities before taxation	(34.5)	(26.9)	462.1
Taxation	(6.2)	(10.4)	(58.6)
(Loss) / profit for the period transferred (from) / to reserves	(40.7)	(37.3)	403.5

Balance sheet

	6 months as at 30 September 2012	30 June 2011	15 months as at 31 March 2012
	£m (unaudited)	£m (unaudited)	£m (audited)
Fixed Assets			
Tangible Assets	3,574.9	2,807.3	3,658.6
	3,574.9	2,807.3	3,658.6
Current Assets			
Stocks	-	0.3	-
Debtors : amounts falling due within one year	21.2	14.2	16.0
Debtors : amounts falling due after one year	147.4	190.9	147.3
Cash at bank and in hand	43.7	56.6	57.9
	212.3	262.0	221.2
Creditors: amounts falling due within one year	(223.6)	(199.2)	(224.3)

	6 months as at 30 September 2012	6 months as at 30 June 2011	15 months as at 31 March 2012
	<i>£m</i> <i>(unaudited)</i>	<i>£m</i> <i>(unaudited)</i>	<i>£m</i> <i>(audited)</i>
Net current (liabilities) / assets	(11.3)	62.8	(3.1)
Total assets less current (liabilities) / assets	3,563.6	2,870.1	3,655.5
Creditors : amounts falling due over one year	(3,479.9)	(3,186.5)	(3,531.1)
Net assets / (liabilities)	<u>83.7</u>	<u>(316.4)</u>	<u>124.4</u>
Capital and reserves			
Called up share capital	-	-	-
Profit and loss account	83.7	(316.4)	124.4
Equity shareholder's surplus / (deficit)	<u>83.7</u>	<u>(316.4)</u>	<u>124.4</u>

Cash flow statement

	6 months to 30 September 2012	6 months to 30 June 2011	15 months to 31 March 2012
	<i>£m</i> <i>(unaudited)</i>	<i>£m</i> <i>(unaudited)</i>	<i>£m</i> <i>(audited)</i>
Net cash inflow from operating activities	<u>90.7</u>	<u>75.3</u>	<u>195.0</u>
Returns on investments and servicing of finance			
Interest received	-	-	0.3
Interest paid	(67.2)	(17.8)	(97.4)
Interest element of finance lease rental	(11.2)	(7.1)	(21.7)
Net cash (outflow) from returns on investment and servicing of finance	<u>(78.4)</u>	<u>(24.9)</u>	<u>(118.8)</u>
Cash flow inflow before financing	<u>12.3</u>	<u>50.4</u>	<u>76.2</u>
Financing			
Repayment of bank debt	(8.6)	-	(15.0)
Cash (outflow) to parent undertaking	(11.4)	-	(5.0)
Cash (outflow) into escrow accounts	(6.5)	(4.8)	(9.3)
Net cash (outflow) from financing	<u>(26.5)</u>	<u>(4.8)</u>	<u>(29.3)</u>
(Decrease) / increase in cash in the period	<u>(14.2)</u>	<u>45.6</u>	<u>46.9</u>

Financial analysis

Given the change of accounting year end and the lack of comparable historical financial statements, HS1 has prepared the financial analysis, as set out below, being HS1's unaudited assessment of the financial performance during the Financial Year ended 31 March 2013, which contain a number of projections (the "**Projections**"). The Projections are the sole responsibility of HS1 and have been prepared by HS1 after due and careful consideration on the basis of:

- assumptions which HS1 considers to be reasonable at the date hereof based on the management's present knowledge and expectations;
- estimates that HS1 believes to be fair at the date hereof; and
- generally accepted accounting principles in the United Kingdom which is consistent with the accounting policies of HS1 and comparable to the historical financial information of HS1 which is set out in HS1's annual report and financial statements for the period ended 31 March 2012.

Whilst the Projections reflect the HS1 management's best assessment of expected developments during, and the likely outcome for, the Financial Year ended 31 March 2013, none of the Obligors, the Issuer or any other person gives any warranty or any other form of comfort as to the likelihood that the Projections will prove to be reliable or accurate or as to the likely occurrence or existence of any particular fact or circumstance in the period covered by the Projections. The principal assumptions underlying the Projections are described in more detail below and are related to the general business and economic conditions, material contingencies and other matters. Some or all of these principal assumptions may depend on subjective judgments, be inherently subject to significant uncertainties and be wholly outside the control of the Obligors. In addition the Obligors' business faces a number of risks that, were they to crystallise, could cause the Obligors' actual results to differ materially from those in the Projections. These risks are discussed in more detail in "*Risk Factors*" above and include factors such as the impact of security threats, legislative or regulatory changes, adverse weather conditions, accidents and industrial disputes.

Potential investors should regard the Projections and the principal assumptions underlying the Projections with considerable caution and should evaluate the potential for actual results to deviate from those set out below and the implication of deviations in other assumptions, which could have been used in preparing the Projections, on the Obligors' results of operations, financial condition and the cash flows. If facts or circumstances were to occur that are less favourable than those assumed in preparing the Projections, the Security Group may be unable to satisfy its obligations under, among other things, the IBLAs, which may result in the Issuer being unable to meet its obligations under the Bonds.

The forecast information was prepared in December 2012. It reflects actual results, to 8 December 2012, together with HS1's forecast based on the following principal assumptions in respect of the remainder of the period:

- train path numbers based on actual data, as above, and the first working timetable for the remainder of the period, which impacts IRC, CRC and OMRC;
- discount of track access charges on the Eurostar Brussels services (60%) from December 2012;
- indexation applied to IRC in February 2013, at 2.50%;
- no retail sales growth for the remainder of the period;
- OMRC from NR(HS) charged at their fixed fee for 12/13, with 10% discount applied (as per the new Operator Agreement). 40% of savings to HS1 as per the discount share agreement with the TOCs;

- traction power costs based on prior year consumption at FY13 KWh rates;
- non-traction power and other station costs based on assumptions from NR(HS);
- other overhead costs assumed continuity with costs incurred to date; and
- financing costs include the effect of USPP issuance in October 2012 and the assumption that refinancing occurs in Q1 2013.

In practical terms, the members of the administrative, management and supervisory bodies of HS1 have varying degrees of influence over the factors underlying the assumptions in respect of the Financial Year ending in March 2013.

Train path numbers, discounts, OMRC, and traction power costs have at this stage already been contracted and it would be unusual for them to be varied by the members of the administrative, management and supervisory bodies of HS1. The performance of the counterparties to the relevant contracts is ultimately beyond the control of the members of the administrative, management and supervisory bodies of HS1. The IRC for the remaining period to March 2013 has already been fully invoiced and received in advance, however the income in advance payable in March 2013 for Q2 2013 (which impacts cashflow for the period) is subject to uncertainties on the published RPI rate. Factors impacting retail sales which are outside of the influence of the members of the administrative, management and supervisory bodies of HS1 include wider economic factors and consumer lifestyle preferences. Financing costs are partly locked in from the USPP pricing, but the financing costs associated with issuances of Bonds under the Programme remain uncertain.

The factors which are more likely to be influenced by the members of the administrative, management and supervisory bodies of HS1 include those influencing retail sales. The members of the administrative, management and supervisory bodies of HS1 recognise that, by working with the leaseholders, to provide an appropriate range of outlets, with corresponding offers and merchandise to appeal to the passenger mix at each station and providing the right ambience and the amount of time available for shopping, the directors can influence, through provision of light, space and heating, the amount of retail income generated. Certain overheads such as staff costs and non-traction power and other station costs, are also likely to be influenced by the directors as these factors are more susceptible to being varied in the relatively short period in question (although there are significant external variables such as general inflation which members of the administrative, management and supervisory bodies of HS1 cannot directly determine).

	12 months to 31 March 2012 (Budget) <i>£m</i>	12 months to 31 March 2012 (Actual) <i>£m</i>	12 months to 31 March 2013 (Forecast) <i>£m</i>
IRC/CRC	135.1	140.5	143.2
Net OMRC	(4.0)	3.1	4.5
Stations	(0.2)	0.9	0.7
Retail, Car Parking & Other Income	9.7	9.5	13.9
EBITDA	140.6	154.0	162.3
UKPN Finance Lease	(17.4)	(17.7)	(18.4)
Capital Expenditure	(15.3)	(6.5)	(6.3)
Working capital and other movements	(3.7)	7.8	(1.6)
Financing costs	(133.7)	(106.7)	(102.7)
Free Cash Flow	(29.5)	30.9	33.3

The favourable variance against budget for the 12 months to March 2012 was driven by:

- IRC/CRC was higher due to above budget RPI, retrospective indexation methodology adjustment and additional, mostly LSER Saturday service, train paths;
- net OMRC was higher due to lower HS1 costs, favourable wash up adjustments and more train paths;
- capital spend was lower due to reductions and rephasing of close out costs; and
- financing costs were lower primarily due to the timing on a shareholder loan interest payment.

The year on year improvement expected from the 2013 forecast against the 2012 actuals is due to:

- IRC/CRC upside driven by estimated indexation benefits, additional LSER paths (over underpinned level) less impact of the EIL discount in respect of Brussels from December 2012;
- net OMRC upside due to terms of amended and restated Operator Agreement signed with NR(HS) in April 2012;
- the positive EBITDA and cash flow from additional OMRC and advertising generated by the Olympics and Paralympics;
- car parking driven by expected cost savings and revenue generation through the new car park operators and a MGR step up at Ebbsfleet;
- retail income is forecast to increase from improved lease terms and more space, improved footfall and lower retail costs;
- working capital is forecast to be adversely affected by reduced income in advance due to the Brussels discount and reversal of one off benefits in 11/12 from accrual releases and other working capital changes; and
- financing costs saving driven by revised debt structure post USPP issuance in October 2012.

Insurance

In addition to ensuring that cover meets or exceeds the minimum levels specified in the Concession Agreement, the HS1 insurance programme is reviewed annually with insurance brokers to ensure that the cover levels remain appropriate and up-to-date. HS1 and/or its sub-contractors have the following insurances in place in relation to HS1's business:

Property damage and business interruption – The limit of liability is set at £400 million in respect of any one occurrence, with business interruption indemnity periods for St Pancras International and all other locations being 36 and 24 months, respectively. There are a number of inner limits of liability such as “restriction of access” (including the Channel Tunnel and NR(HS)) which are set at £10 million and a six month indemnity period. Deductibles are set at £5 million in respect of each and every loss or series of losses arising from a single event of property damage and business interruption. The current policy expires in November 2013. HS1 has a separate policy for property damage and business interruption losses following a terrorist event with the same overall limit and indemnity periods as above.

Terrorism property damage (UKPN Parties' assets) – The limit of liability is set at £25 million for each occurrence and in the aggregate, with an excess of £50,000 for each occurrence. The current policy expires in November 2013.

Employer's liability insurance – Employer liability cover is purchased by HS1 on a blanket basis for employees of HS1 at all locations. For the period until November 2013, HS1 has purchased cover of £10 million indemnity for each loss, with no policy excess.

Public and product liability – Primary and excess policies provide a limit of liability of £350 million for any one occurrence and unlimited during any one period of insurance/in the aggregate during the period for products liability. HS1 has a self insured retention set at £5 million for any one occurrence, subject to an annual aggregate self insured deductible amount of £10 million. Upon exhaustion of the annual aggregate self insured deductible amount, the self insured retention reduces to £1 million for any one occurrence. The current policy expires in November 2013.

Crime insurance – The limit of liability is set at £10 million for any one loss; retention of £100,000 for each and every loss. This current policy is in place until 13 November 2013.

Property owner liability (ownership and occupation of the managed stations) – Property owner liability insurance is provided as part of HS1's Co's insurance arrangements in an aggregate amount of £350 million for all locations. HS1 separately purchases "buy-down" insurance through NRIL at St Pancras International, Ebbsfleet International and Stratford International for the period to March 2013. At Ashford International, HS1's liability policies also apply, but EIL purchases insurance as operator of that station. A separate agreement between HS1 and EIL governs the respective cover.

Directors and officers liability insurance – The directors of HS1 are covered under the policy held by Helix Holdings Limited. The policy limit is £20 million in the aggregate, with an additional £10 million for Non-Executive Directors. The current policy falls due for renewal by 14 November 2013.

Group personal accident/travel insurance – HS1 carries insurance which provides for payment of capital sums in the event of death or injury to specified categories of personnel and travel insurance whilst travelling on the business of HS1. The current policy expires in November 2013.

Motor insurance – Third party only cover for a small number of specified vehicles. The current policy is in place until April 2013; and

Environmental Liability – Limit of indemnity £10 million each and every claim and £20 million in the aggregate and a deductible of £250,000 each claim (both limit and deductible increasing annually in line with RPI up to a maximum of 4%). The current policy expires in May 2024.

Pensions

HS1 participates in a defined benefits railways pension scheme in relation to 35 current and former employees, which is closed to new entrants. Scheme valuations are prepared every 3 years. The last valuation was performed on 31 December 2010 and confirmed that the scheme is fully funded.

In relation to other employees, HS1 participates in a defined contributions pensions scheme.

Legal Proceedings

There are no legal proceedings threatened or outstanding against the company.

HS1

HS1 was incorporated under the Companies Act 1985 and registered in England and Wales on 2 April 1998 as a private limited company with number 03539665. HS1's registered office is at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD and its telephone number is +44 (0) 20 7391 4300. The memorandum and articles of association of HS1 may be inspected at the registered office of HS1.

Management and Employees

The directors and company secretary of HS1 and their respective business addresses and principal activities are set out under "*Business of HS1 – Directors and Senior Management*".

None of the directors of HS1 has any actual or potential conflict between their duties to the company and their private interests or other duties.

Principal Activities

HS1 was established as a private limited company and its principal activities are acquiring and owning High Speed 1 for the duration of the concession granted under the Concession Agreement. For a detailed description of the principal activities of HS1, see "*Business of HS1*".

Management and Control

HS1 is managed and controlled in the United Kingdom.

Share Capital

HS1 is a wholly owned subsidiary of Holdco. The issued share capital of HS1 is £1,000, comprising 990 A shares of £1 each and 10 B shares of £1 each. The share capital of HS1 is fully paid at the date of this Prospectus.

Auditors

The auditors of HS1 are Deloitte LLP with a registered office at 2 New Street Square, London EC4A 3BZ. Deloitte LLP is a registered auditor and is authorised by and is a member of the Institute of Chartered Accountants in England and Wales to practise in England and Wales. Deloitte LLP have audited HS1's accounts, without qualification, in accordance with generally accepted auditing standards in the UK for each of the financial periods ended on 31 December 2010 and 31 March 2012.

HSRF

HSRF was incorporated under the Companies Act 2006 and registered in England and Wales on 30 August 2012 as a public limited company with number 08196684. HSRF's registered office is at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD and its telephone number is +44 (0) 20 7391 4300. The memorandum and articles of association of HSRF may be inspected at the registered office of HSRF.

Directors and Company Secretary

The directors and company secretary of HSRF and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Richard Gooding	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Colin Hood	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
John McManus	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Darrin Pickett	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Sebastien Sherman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Olivia Steedman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Lucy Lazzeri	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	General Counsel & Company Secretary

None of the directors of HSRF has any actual or potential conflict between their duties to the company and their private interests or other duties.

Principal Activities

HSRF was established as a public limited company and its principal activities are the issue and administration of the PP Notes. HSRF has not engaged, since its incorporation in any activity other than those incidental to (i) the authorisation and issue of the PP Notes (ii) the lending of the proceeds of the PP Notes to HS1 (iii) the authorisation and execution of the other documents referred to in this Prospectus and (iv) other matters which are incidental or ancillary to those matters.

HSRF does not own or operate any of the operating assets of the group. Consequently, the ability of HSRF to meet its financial obligations is dependent on the receipt of payments from HS1 under the Initial PPNIBLA.

Management and Control

HSRF is managed and controlled in the United Kingdom.

Share Capital

HSRF is a wholly owned subsidiary of Holdco and its issued share capital is £50,000, divided into 50,000 ordinary shares of £1 each. The share capital of HSRF is fully paid as at the date of this Prospectus.

Auditors

The auditors of HSRF are Deloitte LLP with a registered office at 2 New Street Square, London EC4A 3BZ.

Deloitte LLP is a registered auditor and is authorised by and is a member of the Institute of Chartered Accountants in England and Wales to practise in England and Wales.

HOLDCO

Holdco was incorporated under the Companies Act 2006 and registered in England and Wales on 3 November 2010 as a private limited company with number 07428859. Holdco's registered office is at 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD and its telephone number is +44 207 014 2700. The memorandum and articles of association of Holdco may be inspected at the registered office of Holdco.

Directors and Company Secretary

The directors and company secretary of Holdco and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Richard Gooding	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Colin Hood	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
John McManus	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Darrin Pickett	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Sebastien Sherman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Olivia Steedman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Lucy Lazzeri	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	General Counsel & Company Secretary

None of the directors of Holdco has any actual or potential conflict between their duties to the company and their private interests or other duties.

Principal Activities

Holdco was established as a private limited company and its principal activities are acting as, and in connection with being a holding company.

Holdco does not own or operate any of the operating assets of the group. Consequently, the ability of Holdco to meet its financial obligations is dependent on the receipt of dividends from HS1.

Management and Control

Holdco is managed and controlled in the United Kingdom.

Share Capital

Holdco is a wholly owned subsidiary of Helix Bufferco Limited and its issued share capital is £1,000, divided into 990 £1 A shares and 10 B £1 shares.

Auditors

The auditors of Holdco are Deloitte LLP with a registered office at 2 New Street Square, London EC4A 3BZ.

Deloitte LLP is a registered auditor and is authorised by and is a member of the Institute of Chartered Accountants in England and Wales to practise in England and Wales. Deloitte LLP have audited Holdco's accounts, without qualification, in accordance with generally accepted auditing standards in the UK for the financial year ended on 31 March 2012.

THE ISSUER

The Issuer was incorporated and registered in England and Wales on 3 January 2013 (with registered number 08346271) as a public company of unlimited duration and with limited liability under the Companies Act 2006. The registered office of the Issuer is 12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD and its telephone number is +44 207 014 2700. The memorandum and articles of association of the Issuer may be inspected at the registered office of the Issuer.

Principal Activities

The Issuer is organised as a special purpose company for purpose of issuing asset backed securities. The Issuer was established to raise capital by the issue of Bonds and to on-lend the proceeds of the issuance of Bonds by way of Advances to HS1 under each IBLA, to borrow under the Liquidity Facility and to enter into Issuer Hedging Agreements. The Issuer is and is obliged to remain resident in the United Kingdom for United Kingdom tax purposes.

On or around the Initial Issue Date, the Issuer will enter into the Issuer Transaction Documents to which it is party for the purpose of making a profit. The Issuer has no subsidiaries or employees.

Directors and Company Secretary

The directors and company secretary of the Issuer and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Richard Gooding	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Colin Hood	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
John McManus	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Darrin Pickett	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Sebastien Sherman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
Olivia Steedman	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	Director
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Independent Director
Lucy Lazzeri	12th Floor, One Euston Square, 40 Melton Street, London NW1 2FD	General Counsel & Company Secretary

None of the directors of the Issuer has any actual or potential conflict between their duties to the company and their private interests or other duties as listed above.

The directors and company secretary of SFM Directors Limited and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
Robert Barry	35 Great St Helen's, London EC3A 6AP	Director
Helena Whittaker	35 Great St Helen's, London EC3A 6AP	Company Secretary and Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Joceln Coad	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Company Secretary
Michael Drew	35 Great St Helen's, London EC3A 6AP	Company Secretary
Jennifer Jones	35 Great St Helen's, London EC3A 6AP	Company Secretary

Management and Control

The Issuer is managed and controlled in the United Kingdom.

Share Capital

The Issuer is a wholly owned subsidiary of Helix Acquisition Limited and its issued share capital is £50,000, divided into 50,000 £1.00 ordinary shares. The share capital of the Issuer is fully paid as at the date of this Prospectus. Since the date of incorporation, no option to acquire shares have been issued or authorised. Since its incorporation up to the date of this Prospectus, the Issuer has not paid any dividends.

Auditors

The auditors of the Issuer are Deloitte LLP with a registered office at 2 New Street Square, London EC4A 3BZ.

Deloitte LLP is a registered auditor and is authorised by and is a member of the Institute of Chartered Accountants in England and Wales to practise in England and Wales.

SUMMARY OF THE COMMON DOCUMENTS

The following is a summary of certain provisions of the principal documents relating to the transactions described in this Prospectus.

General overview

The Finance Parties (which includes the Issuer) all benefit from common terms under their relevant debt instrument and a common security package granted by HS1, HSRF and Holdco (as Obligors under the CTA). It is a requirement of the CTA that any future provider of an Authorised Credit Facility must accede to and be bound by the terms of the CTA (see "*Summary of the Common Documents – Common Terms Agreement*" below) and the intercreditor arrangements contained in the STID (see "*Summary of the Common Documents – Security Trust and Intercreditor Deed*" below). The Issuer, as provider of each loan to HS1 corresponding to the proceeds of an issuance of Bonds, will also be party to and be bound by the CTA and the STID.

The CTA sets out the common terms applicable to each IBLA and each other Authorised Credit Facility (other than the Liquidity Facility and each HS1 Hedging Agreement) into which HS1 enters. Save for certain limited exceptions, no Finance Party can have additional representations, covenants, trigger events or loan events of default beyond the common terms deemed to be incorporated by reference into their Authorised Credit Facilities through their execution of, or accession to, the CTA.

The STID regulates among other things: (i) the claims of the HS1 Secured Creditors; (ii) the exercise and enforcement of rights by the HS1 Secured Creditors; and (iii) the giving of instructions, consents and waivers and, in particular, the basis on which votes of the HS1 Secured Creditors will be counted.

All agreements listed below and non-contractual obligations arising out of or in connection with them will be governed by English law and subject to the exclusive jurisdiction of the English courts.

Common Terms Agreement

General

Each of the Obligors, the Issuer, the HS1 Security Trustee, the Issuer Security Trustee, the Bond Trustee, the Cash Manager, the Security Group Agent, the Initial Liquidity Facility Providers, the Initial ACF Arrangers, the LF Arrangers, Initial Liquidity Facility Agent, the Initial HS1 Hedge Counterparties, the Original Initial ACF Lenders, the Initial PP Noteholders, the Initial PP Note Secured Creditor Representative, the Initial ACF Agent and the Account Bank will enter into the CTA on or about the Establishment Date. The CTA sets out the representations, covenants (positive, negative and financial), Trigger Events and Loan Events of Default which apply to each Authorised Credit Facility (including for the avoidance of doubt each IBLA and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the CTA that any representation, covenant, Trigger Event or Loan Event of Default contained in any document which is in addition to those in the CTA and any other Common Document will be unenforceable (save for limited exceptions which, among other things, include tax representations or representations under the Liquidity Facility Agreement or given to the PP Noteholders (including, among other things, representations given to the PP Noteholders with respect to US law and/or tax law issues) and covenants relating to "know your customer" checks, the delivery of documents to allow payments to be made without deduction of Tax, the purpose of the relevant facility, provisions as to illegality, information undertakings, indemnities, covenants to pay, voluntary prepayments, cash sweep, equity cure rights, mandatory prepayments or mandatory "clean-down" provisions (other than upon or following the occurrence of any event of default howsoever worded in an Authorised Credit Facility) and covenants relating to remuneration, costs and expenses) unless they are also offered to all of the parties to the Common Term Agreement on the same basis and for the duration of the relevant facility. In addition, subject to certain conditions, further representations and Trigger Events may be included where they are extended to all of the Finance Parties including the Issuer.

It is a requirement of the CTA that future providers of Authorised Credit Facilities accede to the CTA and the STID.

The CTA will contain certain indemnities of the Obligors to the Finance Parties in respect of losses caused, *inter alia*, by Loan Events of Default.

A summary of the representations, covenants, Trigger Events and Loan Events of Default included in the CTA is set out below.

Representations

On the Initial Issue Date, each Obligor will make a number of representations in respect of itself to each Finance Party. These representations include (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) representations as to:

- (a) its due incorporation, power and authority (i) to enter into and perform its obligations under the Transaction Documents to the extent applicable to it and (ii) has the power and authority to own its assets and carry on its business as it is being and will be conducted;
- (b) all relevant consents, authorisations, licences and approvals for entry into and exercise of its rights under the Transaction Documents (including, without limitation, environmental permits) having been obtained;
- (c) admissibility in evidence of the Transaction Documents in any proceedings in England and Wales, the recognition of the choice of jurisdiction of the courts of England and Wales in any proceedings, the recognition of the choice of English law to govern such documents and the absence of filing and registration requirements in relation thereto;
- (d) its obligations under the Transaction Documents being legal, valid, binding and enforceable;
- (e) its entry into and performance under the Transaction Documents not conflicting with any document or agreement which is binding upon it, its constitutional documents or any applicable law or regulation;
- (f) use of intellectual property rights;
- (g) good title to assets, or valid leases or licences of and all appropriate authorisations necessary to carry on its business;
- (h) absence of Defaults, Trigger Event, Insolvency Events and other similar events and circumstances;
- (i) absence of litigation, arbitration, administrative proceedings, environmental claims or other proceedings;
- (j) the accuracy of certain information including financial statements and this Prospectus;
- (k) no immunity from suit in respect of proceedings;
- (l) no contingent liabilities;
- (m) that the assumptions used to calculate the financial ratios were made in good faith and after due and careful consideration;
- (n) matters relating to its centre of main interest;
- (o) matters relating to insurances;

- (p) matters relating to environmental compliance and claims;
- (q) that any unsecured and unsubordinated claims of an HS1 Secured Creditor against it under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors except those creditors mandatorily preferred by law;
- (r) the absence of any breach of any law or regulation;
- (s) matters relating to holding companies;
- (t) matters relating to property; and
- (u) the absence of any litigation, arbitration, administrative proceedings or other proceedings except those disclosed in this Prospectus.

In addition, on each Issue Date and on each date on which any other new Authorised Credit Facility is issued or entered into under the Programme, each Obligor will repeat certain of such representations (the “**Initial Date Representation**”).

On each Payment Date, on each date of a request for a borrowing and, on the first date of each borrowing each Obligor shall make certain repeating representations (the “**Repeated Representations**”). An Obligor acceding to an Authorised Credit Facility shall make the Repeated Representations on the date of such accession.

Covenants

The CTA contains certain covenants from each of the Obligors. A summary of the covenants is set out below.

Information Covenants

- (a) The Security Group Agent will undertake to supply to the HS1 Security Trustee, the Issuer Security Trustee, the Initial ACF Agent and any other Facility Agent, the Hedge Counterparties, the Rating Agencies and the Bond Trustee in sufficient copies for all HS1 Secured Creditors:
 - (i) consolidated audited Annual Financial Statements of the Security Group, prepared as if they constituted a statutory group for consolidation purposes, and related accountants’ report, within 150 days after the end of each Financial Year;
 - (iii) consolidated, unaudited Semi-Annual Financial Statements of the Security Group together, prepared as if they constituted a statutory group for consolidation purposes, for the first financial half-year in each Financial Year, within 90 days after the end of such financial half-year.
- (b) The Security Group Agent must ensure that:
 - (i) each set of Financial Statements supplied by it is prepared in accordance with Accounting Standards and includes a cashflow statement, a profit and loss account and a balance sheet, and gives a true and fair view of it or, in the case of any unaudited Financial Statements, fairly presents its financial condition (consolidated or otherwise);
 - (ii) it notifies the HS1 Security Trustee of any material change on the basis on which its audited consolidated Financial Statements of HS1 are prepared; and
 - (iii) if any financial ratio results in or could reasonably be expected to result in a deviation equal to or greater than 3 per cent. from the result of the calculation of such

financial ratio if such change had not occurred, the Security Group Agent may, or if the deviation is equal to or greater than 5 per cent. the Holdco Agent shall appoint an international firm of auditors approved by the HS1 Security Trustee or as nominated in accordance with the terms of the CTA to enter discussions with a view to amending the Trigger Event Ratios.

- (c) Unless the HS1 Security Trustee has already been so notified, each Obligor (or the Security Group Agent on its behalf) must notify the HS1 Security Trustee of any Default or Trigger Event relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (d) The Security Group Agent:
 - (i) will undertake to, among other things supply a Compliance Certificate to the HS1 Security Trustee, the Issuer Security Trustee, the Issuer, the HS1 Hedge Counterparties, the Initial ACF Agent and each Rating Agency with each set of audited Annual Financial Statements described in paragraph (a) above: and
 - (ii) may, at any time that the Security Group wishes to make a Restricted Payment outside any Permitted Distribution Period supply a Compliance Certificate to the HS1 Security Trustee, the Issuer Security Trustee, the Issuer, the HS1 Hedge Counterparties and the Initial ACF Agent,

in each case, such Compliance Certificate to be accompanied by a statement confirming:

- (A) the historic ratios and forward-looking ratios which are required to be calculated under the CTA and calculations thereof in reasonable detail;
 - (B) if any Additional Financial Indebtedness has been incurred since the date of the last Compliance Certificate, the Debt Life Coverage Ratio as calculated in connection with such Additional Financial Indebtedness (if Obligors relied on such a ratio);
 - (C) summary details of any acquisition or disposal of Subsidiaries, subsidiary undertakings or interest in any Permitted Joint Venture by any member of the Security Group and of any company or business or material disposals by any member of the Security Group, in each case since the previous delivered Compliance Certificate (or, if none, the Initial Issue Date); and
 - (D) the amount of any Restricted Payment made since the date of the previous Compliance Certificate.
- (iii) must ensure that all forward-looking financial ratio calculations and projections:
 - (A) are made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
 - (B) are consistent and updated by reference to the most recently available financial information required to be produced by each Obligor; and
 - (C) are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections).
- (e) (i) The HS1 Security Trustee shall, within 10 Business Days of receipt of the Compliance Certificate, have the right, acting on the written instructions of the Qualifying HS1 Secured Creditors holding at least 20 per cent by value of Qualifying HS1 Senior Debt, to challenge a statement(s), calculation(s) or ratio(s) in a Compliance Certificate and to call for other substantiating evidence if it informs the

Security Group Agent that it or such Qualifying HS1 Secured Creditors have reason to believe (acting reasonably) that:

- (A) any statement(s), calculation(s) or ratio(s) made in the Compliance Certificate are incorrect or misleading in any material respect; and
- (B) if any statement(s) set out in (i) above were to be re-stated so that they were accurate in all material respects, a Trigger Event would occur.

(ii) In the event that:

- (A) the information to be provided by the Obligors pursuant to sub-paragraph (A) above to determine the accuracy of the statement(s), calculation(s) or ratio(s) being challenged is confidential or commercially sensitive; or
- (B) following receipt of additional information, if the HS1 Security Trustee (acting on the written instructions of the Qualifying HS1 Secured Creditors holding at least 20 per cent. by value of Qualifying HS1 Senior Debt) remains of the opinion that the statement(s), calculation(s) or ratio(s) are materially inaccurate or misleading in a manner that would otherwise result in there being a Trigger Event subsisting; or
- (C) HS1 so directs the HS1 Security Trustee,

the HS1 Security Trustee shall, subject to sub-paragraph (iii) below and following consultation with HS1, appoint an independent expert from an Approved Expert List or such other Expert as may be agreed (the “**Independent Expert**”) to investigate the relevant statement(s), calculation(s) or ratio(s).

(iii) The HS1 Security Trustee shall ensure that any Independent Expert shall:

- (A) enter into a confidentiality undertaking substantially in the then current recommended form of the LMA or in any other form agreed between HS1 and the HS1 Security Trustee (“**Confidentiality Undertaking**”) in relation to any Confidential Information that it receives in respect of any Compliance Certificate; and
- (B) undertake to provide a report of its conclusions within 30 days of its appointment in respect of a Compliance Certificate.

(iv) No Obligor may make a Restricted Payment during:

- (A) the period starting on (and including) the date on which a Compliance Certificate is delivered and ending on (and excluding) the date falling 14 days from such date; and
- (B) in the event that the Compliance Certificate is challenged by the HS1 Security Trustee, the period starting on (and including) the date of the challenge until the earlier of: (A) the date on which investigations in respect of the challenge are completed to the reasonable satisfaction of the HS1 Security Trustee; (B) the date on which the Independent Expert announces its conclusions that the relevant statement(s) or calculation(s) or ratio(s) that were the subject of the challenge were not materially inaccurate or misleading in a manner that resulted in there being no subsistence of a Trigger Event; and (C) 2 Business Days after a re-stated Compliance Certificate which is accurate in all material respects (taking into account the findings of the Independent Expert (if applicable)) has been delivered.

- (v) There shall be no right to challenge any statement(s), calculation(s) or ratio(s) in a Compliance Certificate or to call for other substantiating evidence in respect of any statement(s), calculation(s) or ratio(s) which is (A) directly derived or reproduced from information contained in any Project Document; and/or (B) approved or provided by the Secretary of State and/or the Regulator.

- (f) The Security Group Agent (on behalf of each Obligor) must supply, by each Reporting Date starting with the Reporting Date falling after the Accounting Reference Date falling in September 2013, to, among others, the HS1 Security Trustee, the Issuer Security Trustee, the Initial ACF Agent and any other Facility Agent, the Hedge Counterparties, the Rating Agencies and the Bond Trustee in sufficient copies for all of the relevant HS1 Secured Creditors and each other Issuer Secured Creditor an Investor Report.

- (g) Each Investor Report must include:
 - (i) the historic ratios and forward-looking ratios and calculations thereof in reasonable detail, provided that the historic ratios do not need to be calculated for any Reporting Date prior to the Reporting Date in respect of the Test Date falling in March 2014;
 - (ii) the calculations of the Debt Life Coverage Ratio (if applicable) if any Additional Financial Indebtedness has been incurred since the last Investor Report;
 - (iii) a general update of the following including narrative and details of any key changes:
 - (A) general overview of the Permitted Business including performance and train path numbers;
 - (B) material regulatory changes and business developments;
 - (C) capital expenditure in excess of a minimum amount;
 - (D) details of the current financing position;
 - (E) acquisitions and disposals in excess of a minimum amount; and
 - (F) a summary of the current hedging position;
 - (iv) the amount of any Restricted Payment made since the date of the previous Investor Report; and
 - (v) confirmation that:
 - (A) the Investor Report is accurate in all material respects;
 - (B) no Default or Trigger Event has occurred and is continuing, or if a Default or a Trigger Event has occurred and is continuing, steps (which shall be specified) are being taken to remedy such Default or Trigger Event; and
 - (C) the Security Group is in compliance with the Hedging Policy (including the hedging limits specified therein).

- (h) The Security Group Agent must hold each year an open one-way investor update conference call presentation made by the Security Group Agent to the HS1 Secured Creditors and the Bondholders.

- (i) So far as permitted by any applicable law, regulation, order or any binding confidentiality obligations, each Obligor will undertake to supply to the HS1 Security Trustee:

- (i) as soon as reasonably practicable after becoming aware of the same, details of any litigation, arbitration or administrative proceedings which are current or threatened in writing against any Obligor where such proceedings have been, or there is a reasonable likelihood that they will be adversely determined and which would, if adversely determined, be reasonably likely to have a Material Adverse Effect;
 - (ii) as soon as reasonably practicable after becoming aware of the same, details of any communication, enquiry, investigation or proceeding with, from or involving any regulator or other governmental authority, where such communication relates to a matter which has or could reasonably be expected to have a Material Adverse Effect or where such enquiry, investigation or proceeding, if adversely determined, would have or could reasonably be expected to have a Material Adverse Effect; and
 - (iii) such material information (including hedging information) about the business and financial condition of the Security Group (including the Issuer) which can be requested by the HS1 Security Trustee on the instruction of Qualifying HS1 Secured Creditors holding at least 25 per cent. by value of the Qualifying HS1 Senior Debt.
- (j) In addition, the Security Group Agent shall maintain an open investor website (the “**Designated Website**”) on which information to be provided pursuant to the CTA to the PP Holders and HS1 Secured Creditors and the Issuer Secured Creditors shall be published. Notwithstanding the foregoing HS1 may designate a third party to operate and manage the Designated Website on its behalf. HS1 must promptly upon becoming aware of its occurrence, notify the HS1 Security Trustee and the Bond Trustee if the Designated Website cannot be accessed or the Designated Website or any information on it is infected for a period of 5 Business Days, in which case the Obligor must supply the HS1 Security Trustee and the Bond Trustee with all information required under the CTA in paper form with copies as requested by any Finance Party or Issuer Secured Creditor.

General Covenants

Pursuant to the CTA, the Obligors will give covenants which are customary for a financing of the type (with customary carve-outs, thresholds and caveats) including in relation to compliance with laws, conduct of business and maintenance of licences and authorisations. In particular, the Obligors will give the following covenants:

- (a) to obtain, comply with and do all that is necessary to maintain in full force and effect any material Authorisation required under any law or regulation of a Relevant Jurisdiction to enable it to perform its obligations under the Finance Documents and the Project Documents, and to ensure the legality, validity and enforceability or admissibility in evidence of any Finance Document or Project Document;
- (b) to comply with all laws to which it may be subject if failure to comply has or is reasonably likely to have a Material Adverse Effect;
- (c) to comply with all Environmental Law and obtain and ensure compliance with all requisite Environmental Permits where failure to do so has or is reasonably likely to have a Material Adverse Effect;
- (d) promptly to inform the HS1 Security Trustee of any Environmental Claim against any Obligor where the claim, if adversely determined, would be reasonably likely to have a Material Adverse Effect;
- (e) not to enter into any amalgamation, demerger, merger, consolidation, or corporate reconstruction other than a Permitted Transaction;
- (f) only to carry on the Permitted Business and not to make a substantial change thereto if it would be likely to have a Material Adverse Effect;

- (g) not to acquire or subscribe for shares or other ownership interests in or securities of any company (or other person), acquire any business or undertaking or incorporate any company or other person other than by way of a Permitted Acquisition or Permitted Transaction
- (h) not to enter into, invest in or acquire any interest in any Joint Venture other than any Permitted Joint Venture, Permitted Acquisition, Permitted Disposal or a Permitted Loan;
- (i) Holdco shall not trade, carry on any business, own any assets or incur any liabilities except for:
 - (i) the provisions of administrative services to other members of the Security Group;
 - (ii) ownership of HS1, HSRF, the Issuer and CTRL (UK) or any other shares acquired in connection with a Permitted Acquisition or a Permitted Joint Venture;
 - (iii) credit balances in bank accounts, cash and Cash Equivalent Investments but only if these are subject to any HS1 Security Document;
 - (iv) owning any assets, incurring any liabilities and performing obligations permitted by, incidental to or arising from actions permitted by the Finance Documents and Project Documents;
 - (v) paying professional fees and administration costs in connection payable under the Finance Documents and Project Documents to which it is a party;
 - (vi) incurring liability to pay Tax and paying the Tax;
 - (vii) Permitted Loans or making Restricted Payments;
 - (viii) Permitted Payments and all activities reasonably incidental thereto; or
 - (ix) any activities to be carried out by it as a result of the Acquisition or reasonably incidental thereto.
- (j) to maintain in good working order and condition (ordinary wear and tear excepted) all of its assets necessary or desirable in the conduct of its business where failure to do so has or would reasonably be expected to have, a Material Adverse Effect.
- (k) to ensure that unsecured and unsubordinated claims of an HS1 Secured Creditor against it under the Finance Documents ranks at least *pari passu* with the claims of its other unsecured and unsubordinated creditors except where mandatorily preferred by laws of general application;
- (l) not to create or permit to subsist any Security Interest over any of its assets other than Permitted Security
- (m) not to:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by an Obligor;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset, other than a Permitted Disposal, Permitted Transaction or Permitted Financial Indebtedness;

- (n) not to enter into a single transaction or series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset, unless it is a Permitted Disposal, a Permitted Transaction or a Permitted Payment;
- (o) not to enter into any transaction with any person otherwise than on arm's length terms unless such transaction is:
 - (i) a Project Document;
 - (ii) an intra- Security Group loan or an Investor Funding Loan permitted under the CTA;
 - (iii) payment of fees, costs and expenses payable under the Finance Documents or the Project Documents in the amounts set out therein; and
 - (iv) payment of management fees which are Permitted Payments;
 - (v) a Permitted Transaction or other transaction expressly permitted by the Finance Documents; or
 - (vi) between members of the Security Group which is not prohibited by the terms of the Finance Documents;
- (p) not to be the creditor in respect of any Financial Indebtedness or of any trade credit extended to any of its customers other than where such Financial Indebtedness is a Permitted Loan or Permitted Transaction;
- (q) not to incur or allow to be outstanding any guarantee any guarantee by it or any of its Subsidiaries in respect of any person other than a Permitted Guarantee or Permitted Transaction;
- (r) not to make a Restricted Payment unless the Restricted Payment Condition is satisfied, other than where such Restricted Payment is a Permitted Payment or a Permitted Transaction;
- (s) not to incur or permit to be outstanding any Financial Indebtedness other than Permitted Financial Indebtedness or a Permitted Transaction;
- (t) not to issue any shares except pursuant to a Permitted Share Issue or a Permitted Transaction;
- (u) to maintain insurances with reputable independent insurance companies or underwriters on and in relation to its business and assets with reputable underwriters or insurance companies against those risks and to the extent as is required pursuant to the Concession Agreement or to the extent as is commercially prudent in accordance with good industry practice for such assets for companies carrying on the same or a substantially similar business;
- (v) to ensure that it complies with sections 221 and 222 of the Pensions Act 2004 in relation to all pension schemes operated by or maintained for the benefit of members of the Security Group and/or any of their employees and that no action or omission is taken by any Obligor in relation to such a pension scheme which has Material Adverse Effect;
- (w) not to enter into any arrangements which would cause it to incur additional liability under the Pensions Act 2004 which has or is reasonably likely to have a Material Adverse Effect, and to notify the HS1 Security Trustee promptly upon receipt of any Financial Support Direction or Contribution Notice in respect of amounts in excess of a minimum amount;

- (x) if a Loan Event of Default is continuing or the HS1 Security Trustee reasonably suspects that a Loan Event of Default is continuing, subject to existing contractual arrangements and applicable law, rules and regulations (including HS1's internal policies), to permit the HS1 Security Trustee and its advisers and contractors to have free access at reasonable times and on reasonable notice at the Obligor's cost to the premises, assets, books, accounts and records of each Obligor and to meet and discuss matters with senior management of the Security Group;
- (y) to use all reasonable endeavours to safeguard, preserve and maintain the subsistence and validity of such present and future rights in accordance with Intellectual Property Rights, licences and sub-licences as are necessary for its business including observing all covenants and stipulations relating thereto and obtaining all necessary registrations where failure to do so would have or would reasonably be expected to have a Material Adverse Effect;
- (z) not to amend, vary, novate, supplement, supersede, waive or terminate any term of a Finance Document, except in accordance with the provisions of the STID and its own terms;
- (aa) not to enter into any Treasury Transaction, other than Treasury Transactions:
 - (i) contemplated by the Hedging Policy and documented by a Hedging Agreement; or
 - (ii) entered into in the ordinary course of business provided that they are not for speculative purposes and the counterparty does not accede to the STID;
- (bb) to maintain its centre of main interests for the purpose of Council Regulation (EC) No. 1346/2000 in the United Kingdom;
- (cc) to use reasonable endeavours to maintain a rating of the Bonds issued by the Issuer from at least two Rating Agencies and to co-operate with the Rating Agencies in connection with any reasonable request for information in respect of the maintenance of a rating and with any review of its business which may be undertaken by one or more of the Rating Agencies;
- (dd) not to change the accounting reference date unless the specified process is followed;
- (ee) to ensure that the Cash Manager shall provide the cash management services;
- (ff) to retain at all times reputable auditors;
- (gg) not to incur Additional Financial Indebtedness which is either unsecured or secured by the HS1 Security Documents other than:
 - (i) where the Additional Financial Indebtedness is not Incremental Debt, but is incurred by any Obligor in respect of Capital Expenditure in excess of £10,000,000 then to the extent that any such indebtedness is to be secured, the creditors of such Financial Indebtedness (the "**Incoming Creditors**") accede to the CTA and the STID, the Incoming Creditors do not, and may not at any time, benefit from any Security Interests, guarantees or other credit support, or recourse to, any other Obligor other than pursuant to the HS1 Security Documents and the CTA and HS1 provides a certificate to the HS1 Security Trustee at the time of incurring such Financial Indebtedness confirming that:
 - (A) no Loan Event of Default or Default is subsisting or would occur as a result of the incurrence of such Financial Indebtedness;
 - (B) any hedging in respect of the Additional Financial Indebtedness complies with the Hedging Policy;

- (C) either of the following applies (x) the Debt Life Coverage Ratio (calculated prior to the Execution Date as at the relevant Determination Date in respect of that further debt, assuming that the whole amount of the further debt has been incurred and remains outstanding on that Determination Date) is no less than 1.55:1; or (y) if the further debt is incurred to meet all or a portion of capital expenditure in relation to a Specified Upgrade or other works for which HS1 is entitled to charge additional IRC either (1) the Debt Life Coverage Ratio (calculated prior to the Execution Date as at the relevant Determination Date in respect of that further debt, assuming that the whole amount of the relevant further debt has been incurred and remains outstanding on that Determination Date and the revenues projected to be received by HS1 include the additional IRC relating to the relevant Specified Upgrade or other upgrade) (the “**After DLCR**”) is no less than the Debt Life Coverage Ratio (calculated prior to the Execution Date as at the same Determination Date, but assuming instead that the relevant further debt is not outstanding on that Determination Date and the revenues projected to be received by HS1 do not include any additional IRC relating to the relevant Specified Upgrade or other works) (the “**Before DLCR**”); or (2) if the Before DLCR is greater than 1.55:1, the After DLCR is no less than 1.55:1; and
- (D) HS1 has provided details of such Financial Indebtedness to the Rating Agencies mandated by the Issuer from time to time to provide public long-term credit ratings and those Rating Agencies have not indicated that the then long-term credit rating on the Bonds would, as a consequence of the incurrence of such Financial Indebtedness, be reduced below the lower of: (xx) Investment Grade; and (yy) the then current long-term credit rating of the Bonds (before the incurrence of such Financial Indebtedness);
- (ii) where the Additional Financial Indebtedness constitutes Incremental Debt, then to the extent that any such indebtedness is to be secured, the Incoming Creditors accede to the STID and the CTA, the Incoming Creditors do not, and may not at any time, benefit from any Security Interests, guarantees or other credit support, or recourse to, any other Obligor other than pursuant to the HS1 Security Documents and the CTA, the terms of such Financial Indebtedness shall not provide that the final maturity date for such indebtedness shall fall on or before the Final Maturity Date of Facility A and HS1 provides a certificate to the HS1 Security Trustee at the time of incurring such Financial Indebtedness confirming that:
- (A) no Loan Event of Default or Default is subsisting or would occur as a result of the incurrence of such Financial Indebtedness;
- (B) no Trigger Event is subsisting or would occur as a result of the incurrence of such Financial Indebtedness;
- (C) any hedging in respect of the Additional Financial Indebtedness complies with the Hedging Policy;
- (D) the Projected DSCR, calculated by reference to the most recently provided Annual Financial Statements or Semi-Annual Financial Statements and taking into account the incurrence of such Financial Indebtedness, shall not be less than 1.4:1 in respect of each of the period commencing on the most recent Test Date and ending on the first anniversary of that Test Date (the “**First Annual Test Date**”) and the period commencing on the First Annual Test Date and ending on the date falling 12 months after the First Annual Test Date;

- (E) the Debt Life Coverage Ratio (calculated prior to the Execution Date as at the relevant Determination Date in respect of that further debt, assuming that the whole amount of the further debt has been incurred and remains outstanding on that Determination Date) is no less than 1.55:1; and
 - (F) HS1 has provided details of such Financial Indebtedness to the Rating Agencies mandated by the Issuer from time to time to provide public long-term credit ratings; and those Rating Agencies have not indicated that the then long-term credit rating on the Bonds would, as a consequence of the Financial Indebtedness, be reduced below the lower of: (xx) the long-term credit rating of the Bonds on the Initial Issue Date; and (yy) the then current long-term credit rating of the Bonds (before the incurrence of such Financial Indebtedness);
- (iii) where the Additional Financial Indebtedness is not Incremental Debt, but is incurred by any Obligor in respect of the refinancing of any existing Financial Indebtedness (“**Refinancing Indebtedness**”), to the extent that the Refinancing Indebtedness is to be secured, the creditors of the Refinancing Indebtedness accede to the CTA and the STID, the Incoming Creditors do not, and may not at any time, benefit from any Security Interests, guarantees or other credit support, or recourse to, any other Obligor other than pursuant to the HS1 Security Documents and the CTA and HS1 provides a certificate to the HS1 Security Trustee at the time of entering into the Refinancing Indebtedness confirming that:
- (A) no Loan Event of Default or Default is subsisting or would occur as a result of the incurrence of such Financial Indebtedness;
 - (B) any hedging in respect of the Additional Financial Indebtedness complies with the Hedging Policy; and
 - (C) either (I) the Debt Life Coverage Ratio (calculated prior to the Execution Date as at the Test Date preceding the entry into the Refinancing Indebtedness, assuming (x) that the whole amount of the Refinancing Indebtedness has been incurred and remains outstanding on that Test Date; and (y) that the amount of existing Financial Indebtedness to be refinanced by the Refinancing Indebtedness is no longer outstanding on that Test Date) is no less than 1.55:1, or (II) HS1 has provided details of the Refinancing Indebtedness to the Rating Agencies mandated by the Issuer from time to time to provide public long-term credit ratings and those Rating Agencies have not indicated that the then long-term credit rating on the Bonds would, as a consequence of the Refinancing Indebtedness, be reduced below the lower of: (xx) the long-term credit rating of the Bonds on the Initial Issue Date; and (yy) the then current long-term credit rating of the Bonds (before the Refinancing Indebtedness is entered into);
- (iv) where the Additional Financial Indebtedness is not Incremental Debt, but is incurred by any Obligor in respect of Capital Expenditure less than of £10,000,000 or to fund the working capital requirements of the Obligors (provided that such Additional Financial Indebtedness shall be, in aggregate, no more than £65,000,000 (Indexed) plus 10 per cent. at any time) then to the extent that any such indebtedness is to be secured, the Incoming Creditors accede to the CTA and the STID, the Incoming Creditors do not, and may not at any time, benefit from any Security Interests, guarantees or other credit support, or recourse to, any other Obligor other than pursuant to the HS1 Security Documents and the CTA and HS1 provides a certificate to the HS1 Security Trustee at the time of incurring such Financial Indebtedness confirming that:

- (A) no Loan Event of Default or Potential Loan Event of Default is subsisting or would occur as a result of the incurrence of such Financial Indebtedness; and
 - (B) any hedging in respect of the Additional Financial Indebtedness complies with the Hedging Policy,
- (hh) not to change its memorandum or articles of association or other constitutional documents without the prior written consent of the HS1 Security Trustee, if such change would be reasonably likely to have a Material Adverse Effect;
- (ii) not to amend, waive, assign, transfer, terminate, suspend or abandon all or any part of a Principal Project Document unless it is required to do so by law or regulation or where to do so has or would reasonably be expected to have a Material Adverse Effect.
 - (i) There shall be no breach of this covenant where:
 - (A) HS1 certifies that such services can be adequately performed by the Holdco Group from its own resources and/or that it is entering into or taking steps to enter into a replacement contract with a counterparty or counterparties which in the opinion of HS1 are of adequate technical and financial standing to provide such services;
 - (B) HS1 is entitled to receive adequate compensation in respect of the amendment, waiver, assignment, transfer, termination, suspension or abandonment which, once received and applied by HS1, will result in any such amendment, waiver, assignment, transfer, termination, suspension or abandonment of all or any part of a Project Document not having a Material Adverse Effect;
 - (C) the Secretary of State, HS1 Security Trustee or a Representative has elected to step-in and assume joint liability under the terms of the relevant Project Document pursuant to the relevant Financing Direct Agreement;
 - (D) there would otherwise be no Material Adverse Effect notwithstanding any such amendment, waiver, assignment, transfer, suspension or abandonment;
 - (ii) Notwithstanding paragraph (i), if:
 - (A) any amendment, waiver, assignment, transfer, termination, suspension or abandonment of a Principal Project Document has occurred which has or would reasonably be expected to have a Material Adverse Effect; and
 - (B) HS1 has, in accordance with paragraph (i)(A) certified that it is entering into or has taken appropriate steps to enter into a replacement contract(s) (and such certification has not been withdrawn) or in accordance with paragraph (i)(B) is entitled to receive adequate compensation in respect of such event; but
 - (C) in respect of:
 - (I) any Principal Project Document (other than a Key Principal Project Document), on the date falling twelve (12) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant amendment, waiver, assignment, transfer, termination, suspension or abandonment has occurred such a replacement contract(s) has/have not been entered into or such compensation has not been received by HS1; or

- (II) any Key Principal Project Document, on the date falling six (6) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant amendment, waiver, assignment, transfer, termination, suspension or abandonment has occurred such a replacement contract(s) has/have not been entered into or such compensation has not been received by HS1,

then a breach of this covenant shall occur on that date.

- (jj) HS1 may at any time following any termination of any of the UKPN Agreements acquire, sell, re-lease or otherwise deal with the assets the subject of the UKPN Agreements and/or make any payments required to be made under or in connection with any such termination, acquisition, sale, re-leasing or other dealing, provided that such acquisition, sale, re-leasing or other dealing with such assets or making such payments in connection with the foregoing does not have a Material Adverse Effect and the HS1 Security Trustee will be authorised by the HS1 Secured Creditors to execute such additional documents/amendments to the Finance Documents in order to give effect to the foregoing;
- (kk) HS1 may at any time, from agree to transfer to itself or another member of the Holdco Group any employees, assets or business or undertake any of the services which are, as at the Establishment Date, performed for it by Network Rail or any third party under any Project Document, **provided that** such action could not reasonably be expected to result in a Material Adverse Effect, and the HS1 Security Trustee will be authorised by the HS1 Secured Creditors to execute such additional documents/amendments to the Finance Documents in order to give effect to the foregoing;
- (ll) if any Project Document which is the subject of a Financing Direct Agreement is amended, waived, assigned, transferred, terminated, suspended or abandoned; or if any party to a Project Document which is the subject of a Financing Direct Agreement rescinds or purports to rescind or repudiates or purports to repudiate a Project Document in whole or in part, and HS1 enters into a replacement contract(s) with a counterparty or counterparties, HS1 shall procure that one or more direct agreement(s) with the new counterparty or counterparties or similar arrangements having a substantively similar effect to the Financing Direct Agreement which was in place in respect of the relevant Project Document is/are entered into by the relevant counterparty or counterparties and the other relevant parties who were party to the Financing Direct Agreement which was in place in respect of the relevant Project Document (other than the outgoing counterparty);
- (mm) not to compromise or settle any claim, litigation or arbitration which would be reasonably likely to have a Material Adverse Effect without prior notification to the HS1 Security Trustee;
- (nn) if, in respect of any Test Period, scheduled Interest and principal payable in respect of any HS1 Senior Debt owned by any Obligor has been deducted by HS1 from the calculation of Historic Consolidated Debt Service and/or Projected Consolidated Debt Service, not to dispose of the relevant HS1 Senior Debt for 12 months after the end of the Test Period; and
- (oo) to file all material tax returns required to be filed in the jurisdiction in which the Obligor or Subsidiary in question is resident for Tax purposes, and to pay and discharge all Taxes shown to be due and payable on such material returns and all other material Taxes imposed by such jurisdiction on them or any of their properties, assets or income, to the extent the same have become due and payable and before they have become delinquent, provided that no Obligor nor any Subsidiary need pay any such Tax if (i) the amount, applicability or validity thereof is contested by such Obligor or such Subsidiary on a timely basis in good faith and in an appropriate manner, and such Obligor or such Subsidiary has established reserves therefor on its books which are adequate in the reasonable opinion of such Obligor or such Subsidiary respectively, (ii) such Taxes can be lawfully withheld or a failure to pay such Taxes would not

reasonably be expected to have a Material Adverse Effect or (iii) the non-payment of all such Taxes in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Trigger Events

The CTA will also set out certain Trigger Events. The specific Trigger Events and the consequences which flow from the occurrence of those events are set out below.

The occurrence of any of the following events will be a “**Level 1 Trigger Event**”:

(a) *Provisional Order*

The ORR makes a Provisional Order in respect of High Speed 1 (a “**Provisional Order Trigger Event**”).

(b) *Non-Renewal of Insurances*

The Security Group Agent has not, by the date falling 15 Business Days prior to the relevant renewal date, provided the HS1 Security Trustee with written confirmation that HS1 is making arrangements for the insurances referred to in the Concession Agreement to be renewed on the relevant renewal date.

The occurrence of any of the following events will be a “**Level 2 Trigger Event**”:

(a) *Liquidity Required Amount*

The sum of the amount available under a Liquidity Facility Agreement at any time and any amount credited to the Issuer Debt Service Reserve Account and the Obligor Debt Service Reserve Accounts is in aggregate less than the Liquidity Required Amount.

(b) *Financial ratios*

On any date when any of the following ratios is calculated in accordance with the CTA to breach the relevant level specified below (each a “**Trigger Event Ratio Level**”) as determined at the Test Date relating to the relevant Test Period:

(i) the Historic DSCR is less than 1.2:1;

(ii) the Projected DSCR is less than 1.2:1;

in each case as stated in the relevant Compliance Certificate.

(c) *Final Order*

The ORR makes a Final Order in respect of the High Speed 1.

(d) *Requirement to remedy breach under Concession Agreement*

The Secretary of State issues a notice to HS1 pursuant to the Concession Agreement requiring HS1 to remedy a breach referred to in a notice of default or to put forward a reasonable programme for the remedying of the breach referred to in a notice of default, in accordance with the Concession Agreement.

(e) *Termination of Licence*

The ORR gives HS1 notice of termination of or proposed or actual modification of any licence required for the performance of the Permitted Business of any Obligor, which, if implemented, would have a Material Adverse Effect.

(f) *Adverse Governmental Legislation*

The commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) of legislation (or the commencement of the equivalent stage of the implementation of EU law through regulations made under the European Communities Act 1972), relating to the Permitted Business of HS1 if such legislation would (if enacted) reasonably be expected to have a Material Adverse Effect unless the Security Group Agent provides written evidence satisfactory to the HS1 Security Trustee that the relevant draft bill is no longer proceeding in the legislative process for any reason other than as a result of enactment, and provided that it shall not be a Material Adverse Effect if any such legislation is in replacement of existing legislation on the same or substantially the same terms.

(g) *Drawdown on Liquidity Facilities*

An Obligor or the Issuer draws down under a Liquidity Facility (excluding any drawing or repayment of any Standby Drawing) or withdraws sums credited to an Obligor Debt Service Reserve Account or the Issuer Debt Service Reserve Account or, as the case may be, an Obligor Liquidity Standby Account or the Issuer Liquidity Standby Account if the withdrawal of such amount is for the purposes of making scheduled debt service payments on the HS1 Senior Debt or the Issuer Senior Debt.

(h) *Loan Event of Default*

Without prejudice to the other remedies in respect thereof, and subject to the expiry or any applicable grace or remedy, the occurrence of a Loan Event of Default which is continuing.

(i) *Credit rating downgrade*

The long term credit rating of any Bonds ascribed by at least two Rating Agencies (which have been engaged by the Issuer to provide a public long-term credit rating) is downgraded below Investment Grade or the equivalent from any other Rating Agency that has been engaged by the Issuer to provide a public long-term credit rating.

The credit rating referred to above is the “**Trigger Event Credit Rating**” for the Bonds.

(j) *Inflation-Linked Hedging Transactions*

As at the most recently occurring Test Date, the aggregate amount of all accretions by indexation to the notional amount of any inflation- linked Hedging Transactions exceeds 20 per cent of HS1 Senior Debt.

Trigger Event Consequences

Following the occurrence of a Level 1 Trigger Event and at any time until such Trigger Event has been waived by the HS1 Security Trustee or remedied in accordance with the Trigger Event Remedies (see “—*Trigger Events Remedies*” below) the following provisions (“**Level 1 Trigger Event Consequences**”) will apply:

(a) *Further Information*

The HS1 Security Trustee may request (i) the Security Group, or such members thereof as the HS1 Security Trustee may consider appropriate, to provide the HS1 Security Trustee within a specified timeframe being not less than twenty (20) Business Days with its written proposals for the remedy of the Level 1 Trigger Event (to the extent the same is capable of remedy by the Security Group); and/or (ii) that the management of HS1 meet with the HS1 Security Trustee to discuss the ramifications of the Level 1 Trigger Event and its remedy; and / or

(b) *Consultation with Regulator*

If a Provisional Order Trigger Event occurs, subject to the prior consent of the Secretary of State and/or the Regulator, as applicable, and to the extent required, the HS1 Security Trustee may request: (i) that it is consulted with respect to correspondence between HS1 and the ORR in respect of the Provisional Order Trigger Event, (ii) that it is consulted with respect to the preparation of a response by HS1 to the Provisional Order; and/or (iii) that it is invited to attend any discussions between HS1 and ORR and/or the Secretary of State in respect of the ramifications of the Provisional Order and its remedy (and HS1 shall use reasonable endeavours to procure the consent of the ORR and the Secretary of State to the attendance of the HS1 Security Trustee at such discussions, if the HS1 Security Trustee so requires).

Following the occurrence of a Level 2 Trigger Event and at any time until such Trigger Event has been waived by the HS1 Security Trustee or remedied in accordance with the Trigger Event Remedies (see “—*Trigger Events Remedies*” below) the following provisions (“**Level 2 Trigger Event Consequences**”) will apply:

(a) *No Restricted Payments*

No Obligor may make a Restricted Payment until the next Test Date after the Trigger Event is cured and provided that no Trigger Event is then subsisting.

(b) *Further Information*

So far as permitted by any applicable law, regulation, order or any binding confidentiality obligations, the Security Group must provide such information as to the relevant Level 2 Trigger Event (including its causes and effects) as may be reasonably requested by the HS1 Security Trustee acting on the instructions of 25 per cent. or more by value of the Qualifying HS1 Secured Creditors, provided that the HS1 Group will not be obliged to provide any information for distribution to the HS1 Secured Creditors if such information is commercially sensitive and disclosure of such information could be materially prejudicial to the business and interests of such Obligor or the Security Group taken as a whole.

(c) *Remedial Plan*

- (i) HS1 or another Obligor shall prepare a plan for remedying the Level 2 Trigger Event (a “**Remedial Plan**”) to the extent that it is capable of remedy by the Security Group.
- (ii) If the Secretary of State or the ORR in the exercise of their regulatory functions or pursuant to the Concession Agreement, reviews and approves the Remedial Plan, HS1 shall implement the Remedial Plan.
- (iii) If HS1 or another Obligor does not prepare a Remedial Plan within 40 days (or such time as may be required by the Secretary of State or the Regulator) of the occurrence of the Trigger Event, the HS1 Security Trustee shall be entitled to appoint (if necessary) and instruct an Independent Expert to prepare a Remedial Plan.
- (iv) Subject to the prior consent of the Secretary of State and/or the Regulator, as applicable, the HS1 Security Trustee may on request, participate in any discussions between HS1 and ORR and/or the Secretary of State in respect of any Remedial Plan.
- (v) The Security Group shall co-operate with any Independent Expert appointed by the HS1 Security Trustee to prepare or review a Remedial Plan, with a view to enabling the Independent Expert to prepare or review a Remedial Plan.

(d) *Optional Prepayment*

(i) Subject to paragraph (iii) below, if a Trigger Event has occurred and is continuing and the Obligors wish to make a voluntary prepayment of any HS1 Senior Debt (and provided it is not prohibited from doing so pursuant to the Finance Documents) the Obligors shall apply the amount available for such prepayment pro-rata according to the respective principal amounts outstanding of:

- (A) the aggregate of the Advances outstanding under the IBLAs (less amounts already standing to the credit of the HS1 Defeasance Account in respect of the relevant Advances outstanding under the IBLAs) (the “**Outstanding IBLA Balances**”); and
- (B) the principal amount outstanding of any other HS1 Senior Debt ranking *pari passu* with the Outstanding IBLA Balances, other than amounts outstanding under or in respect of any Liquidity Facility Agreement and the HS1 Hedging Transactions (less amounts already standing to the credit of the HS1 Defeasance Account in respect of such HS1 Senior Debt) (the “**Pari Passu HS1 Senior Debt**”),

towards:

- (I) in respect of the amount to be applied in respect of Outstanding IBLA Balances:
 - (aa) prepayment of Outstanding IBLA Balances or purchase of Bonds corresponding to the Outstanding IBLA Balances together with any related Repayment Costs;
 - (bb) by depositing in the HS1 Defeasance Account an amount equal to the principal amount outstanding under HS1 Defeased Debt (to the extent not prepaid pursuant to subparagraph (aa)) and for which purpose “outstanding” shall be calculated net of any HS1 Defeasance Amount already deposited in an HS1 Defeasance Account in respect of such HS1 Defeased Debt;
- (II) in respect of the amount to be applied in respect of Pari Passu HS1 Senior Debt:
 - (aa) prepayment or purchase of Pari Passu HS1 Senior Debt;
 - (bb) making a deposit to the HS1 Defeasance Account in respect of such Pari Passu HS1 Senior Debt (to the extent not purchased or prepaid pursuant to this sub-paragraph (bb)); and
 - (cc) payment of any related Repayment Costs, including, without limitation, paying the related amount payable to HS1 Hedge Counterparties arising as a result of termination (in whole or in part) of any HS1 Hedging Transactions following the prepayment or purchase of the Pari Passu HS1 Senior Debt, to the extent that such termination is necessary in order to remain in compliance with the Hedging Policy following such prepayment or purchase.

(ii) Notwithstanding the foregoing, if the Trigger Event arises as a result of accretions by indexation on Hedging Transactions exceeding 20 per cent. of HS1 Senior Debt, the Obligors may prepay and/or terminate the relevant Hedging Transactions so as to

remedy such Trigger Event without having to effect a pro-rata prepayment/ purchase and/or defeasance of any other HS1 Senior Debt.

- (iii) If a Trigger Event has occurred and is continuing and at that time, pursuant to any Sweep Facility, the Obligors are required to apply Excess Cashflow towards mandatory prepayment under that Sweep Facility, the Obligors shall not be permitted to make any voluntary prepayment from any amount of Excess Cashflow to the extent required to be applied towards such mandatory prepayment and such application of amounts of Excess Cashflow shall not be a breach of this paragraph (d) (*Optional Prepayment*).

Trigger Event Remedies

At any time when an Obligor believes that a Trigger Event has been remedied by virtue of any of the following, it must serve notice on the HS1 Security Trustee to that effect. The HS1 Security Trustee must respond within ten (10) days (or such longer period as it may reasonably agree with the relevant Obligor (as the case may be)) confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event shall continue to be a Trigger Event until such time as the HS1 Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

The following shall constitute remedies to the Trigger Events (each, a “**Trigger Event Remedy**”):

- (a) *Provisional Order*

The occurrence of a Provisional Order Trigger Event will be remedied if an Obligor provides the HS1 Security Trustee with written confirmation together with such supporting evidence as may reasonably be required by the HS1 Security Trustee evidencing that the relevant Provisional Order has lapsed or the breach the issue of the Provisional Order has been remedied in accordance with its terms.

- (b) *Non-Renewal of Insurances*

The occurrence of the Trigger Event in respect of non-renewal of insurances will be remedied if an Obligor provides the HS1 Security Trustee with documentation evidencing the renewal of the relevant insurances.

- (c) *Liquidity Required Amount*

The occurrence of the Trigger Event in respect of the Liquidity Required Amount will be remedied if an Obligor provides the HS1 Security Trustee with documentation evidencing the availability of Liquidity Facilities up to the Liquidity Required Amount.

- (d) *Financial ratios*

The breach of a Trigger Event Ratio Level will be remedied if such ratio is or such ratios are equal to or higher than the Trigger Event Ratio Level as determined as at the Test Date relating to the relevant Test Period as stated in the Compliance Certificate produced in respect of any relevant Reporting Date, or in respect of any calculation required by the terms of the CTA but not delivered in respect of a Reporting Date, as stated in a Compliance Certificate from the Security Group Agent on the such date and subject in each case to any final determination or dispute procedure in accordance with the terms of the CTA.

- (e) *Final Order*

The occurrence of the Trigger Event in respect of a Final Order will be remedied if an Obligor provides the HS1 Security Trustee with written confirmation together with such supporting

evidence as may reasonably be required by the HS1 Security Trustee evidencing that the breach which is the issue of the Final Order has been remedied in accordance with its terms.

(f) *Breach under Concession Agreement*

The occurrence of the Trigger Event in respect of a breach under the Concession Agreement will be remedied if an Obligor provides the HS1 Security Trustee with written confirmation together with such supporting evidence as may reasonably be required by the HS1 Security Trustee evidencing that the breach of the Concession Agreement has been remedied and/or that such breach is not reasonably likely to have a Material Adverse Effect.

(g) *Termination of Licence*

The occurrence of the Trigger Event in respect of the termination or modification of any licence will be remedied if an Obligor provides the HS1 Security Trustee with written confirmation together with such supporting evidence as may reasonably be required by the HS1 Security Trustee evidencing that:

- (i) a member of the Holdco Group has entered into or obtained a replacement, reinstated or modified licence permitting the Holdco Group to continue to perform the Permitted Business; or
- (ii) the ORR has directed that the Permitted Business can continue without such license or that such license is no longer required.

(h) *Adverse Governmental Legislation*

The occurrence of the Trigger Event in relation to adverse governmental legislation will be remedied if the draft bill (or the equivalent under the European Communities Act 1972) fails to become an Act of Parliament within 6 months of the occurrence of the Trigger Event or becomes an act in a form which is reasonably likely not to have a Material Adverse Effect.

(i) *Drawdown on Liquidity Facility*

The occurrence of a Trigger Event in relation to drawdowns under a Liquidity Facility will be remedied if the aggregate balance drawn down (other than by way of Standby Drawings) under the Liquidity Facility is restored to zero and an amount equal to any sums withdrawn from an Obligor Debt Service Reserve Account, the Issuer Debt Service Reserve Account or as the case may be, an Obligor Liquidity Standby Account or the Issuer Liquidity Standby Account for the purposes of making scheduled debt service payments on the HS1 Senior Debt or the Issuer Senior Debt is deposited into an Obligor Debt Service Reserve Account, an Obligor Liquidity Standby Account or the Issuer Liquidity Standby Account.

(j) *Loan Event of Default*

The occurrence of a Trigger Event in relation to a Loan Event of Default will be remedied if the Loan Event of Default is waived in accordance with the STID or is remedied to the reasonable satisfaction of the HS1 Security Trustee.

(k) *Credit Rating Downgrade*

The occurrence of a Trigger Event in relation to a credit rating downgrade will be remedied if the credit rating of the relevant Bonds given by at least two Rating Agencies is no longer below the Trigger Event Credit Rating.

(l) *Inflation-Linked Hedging Transactions*

The occurrence of a Trigger Event in relation to inflation-linked Hedging Transactions will be remedied if, on any date subsequent to the Test Date on which such Trigger Event first occurred, the aggregate amount of all accretions by indexation to the original notional amounts of any inflation-linked Hedging Transactions no longer exceeds 20 per cent. of HS1 Senior Debt.

Loan Events of Default

The CTA will contain the following of events of default which will constitute the “**Loan Events of Default**” under each Finance Document other than any Liquidity Facility Agreement, any HS1 Hedging Agreement and any Issuer Hedging Agreement, each one being a “**Loan Event of Default**”:

(a) *Non-Payment*

Non payment by an Obligor on the due date of amounts payable under the Finance Documents in the manner required under such documents unless payment is made within 5 Business Days of the due date.

(b) *Breach of Financial Covenant*

Either:

- (i) the ratio of Historic Consolidated Cashflow to Historic Consolidated Debt Service; and/or
- (ii) the ratio of Projected Consolidated Cashflow to Projected Consolidated Debt Service;

in each case, as at the relevant Test Date as stated in the Compliance Certificate produced in respect of any Reporting Date falls below the Default Ratio and provided that:

- (A) no Loan Event of Default under paragraph (i) or (ii) will occur until the date falling 20 Business Days after the delivery of the relevant Compliance Certificate; and
- (B) a Loan Event of Default under paragraph (i) or (ii) may be cured by exercise of any Equity Cure Right at any time.

(c) *Breach of other Obligations*

An Obligor does not comply with any provision of the Finance Documents (other than those referred to in paragraphs (a) and (b) above), other than if the failure to comply is capable of remedy within thirty (30) Business Days of the earlier of (A) the HS1 Security Trustee giving notice to HS1 and (B) HS1 becoming aware of the failure to comply.

(d) *Misrepresentation*

Any representation or statement made by an Obligor in Finance Documents or in any document delivered by or on behalf of any Obligor under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made other than if the failure or event or circumstance giving rise to the breach is capable of remedy and is remedied within thirty (30) Business Days of the earlier of (A) the HS1 Security Trustee giving notice to HS1 and (B) HS1 becoming aware of the event or circumstance.

(e) *Insolvency*

- (i) Any Obligor is unable or admits inability to pay its debts as they fall due or is deemed to or declared to be unable (other than pursuant to section 123(i)(a) of the Insolvency Act 1986) to pay its debts under applicable law, suspends or threatens to suspend making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling any of its indebtedness other than where a member of the Security Group has commenced negotiations with any of its creditors generally with a view to rescheduling its indebtedness generally, where the relevant indebtedness arises under any subordinated Financial Indebtedness, any intragroup loan or guarantee or any amount owed to an Investor.
- (ii) A moratorium is declared in respect of any indebtedness of any Obligor, provided that, if a moratorium occurs, the ending of the moratorium will not remedy any Loan Event of Default caused by that moratorium.

(f) *Insolvency Proceedings*

- (i) Any corporate action, legal proceedings or other procedure or step is taken in relation to:
 - (A) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Obligor;
 - (B) a composition, compromise, assignment or arrangement with creditors generally of any Obligor (as part of a general composition, compromise, assignment or arrangement affecting such Obligor's creditors generally and other than any counterparty to a Project Document) other than a composition compromise, assignment or arrangement with respect to any subordinated Financial Indebtedness, any intragroup loan or guarantee or any amount owed to an Investor;
 - (C) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any Obligor; or
 - (D) enforcement of any Security Interest over any assets of any Obligor,or any analogous procedure or step is taken in any jurisdiction, other than (1) any winding-up petition which is (x) being contested in good faith by any Obligor; or (y) frivolous or vexatious and is discharged, stayed or dismissed within 10 Business Days of commencement or, if earlier, the date on which it is advertised or (2) any step or procedure contemplated by paragraph (b) of the definition of Permitted Transaction.
- (ii) An application is made by the ORR or the Secretary of State for a special administration order in respect of HS1.

(g) *Unlawfulness and invalidity*

- (i) It is or becomes unlawful for an Obligor to perform any of its obligations under the Finance Documents or any Security Interest created or expressed to be created or evidenced by the HS1 Security Documents ceases to be effective or any subordination created under the STID is or becomes unlawful.

- (ii) Any obligation or obligations of any Obligor under any Finance Documents or any other member of the Security Group under the STID are not (subject to the Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the HS1 Secured Creditors under the Finance Documents.
 - (iii) Any Finance Document ceases to be in full force and effect or any Security Interest or any subordination created under the STID ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it (other than a Finance Party) to be ineffective.
- (h) *Repudiation and rescission of agreements*
- (i) An Obligor either rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.
 - (ii) Any counterparty rescinds or purports to rescind or repudiates or purports to repudiate a Principal Project Document in whole or in part where to do so has or would reasonably be expected to have a Material Adverse Effect, other than where:
 - (A) HS1 certifies that such services can be adequately performed by the Holdco Group from its own resources and/or that it is entering into or is taking steps to enter into a replacement contract(s) with a counterparty or counterparties which, in the opinion of HS1 acting reasonably, are of adequate technical and financial standing to provide such services; or
 - (B) HS1 is entitled to receive adequate compensation in respect of the matters referred to in sub-paragraph (A) above which, once received and applied by HS1 will result in any such amendment, waiver, assignment, transfer, termination, suspension or abandonment of all or any part of a Principal Project Document not having a Material Adverse Effect; or
 - (C) the Secretary of State, the HS1 Security Trustee or any Representative has elected to step-in and assume joint liability under the terms of the relevant Principal Project Document pursuant to the relevant Financing Direct Agreement;
 - (iii) Notwithstanding paragraph (ii)(A), (B) and (C), if:
 - (A) any rescission, purported rescission, repudiation or purported repudiation of a Principal Project Document has occurred which has or would reasonably be expected to have a Material Adverse Effect; and
 - (B) HS1 has, in accordance with paragraph (ii)(A) certified that it is entering into or has taken appropriate steps to enter into a replacement contract(s) (and such certification has not been withdrawn) or, in accordance with paragraph (ii)(B) HS1 is entitled to receive adequate compensation in respect of the relevant matters; but
 - (C) in respect of:
 - (I) any Principal Project Document (other than a Key Principal Project Document) on the date falling twelve (12) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant rescission, purported rescission, repudiation or purported repudiation has occurred such a replacement contract(s) has/have not been

entered into or such compensation has not been received by HS1; or

- (II) any Key Principal Project Document on the date falling six (6) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant rescission, purported rescission, repudiation or purported repudiation has occurred such a replacement contract(s) has/have not been entered into or such compensation has not been received by HS1,

a breach of this covenant shall occur on that date.

- (iv) Any party to the STID (other than any HS1 Secured Creditor or Issuer Secured Creditor which is party to the STID) rescinds or purports to rescind or repudiates or purports to repudiate the STID in whole or in part where to do so has a material adverse effect on the interests of the HS1 Secured Creditors under the Finance Documents;

(i) *Change in law*

- (i) Any change in law occurs which has or would be reasonably expected to have a Material Adverse Effect, provided that, if in connection with a change in law which has or would be reasonably expected to have a Material Adverse Effect HS1 is negotiating either a derogation from the application of such change in law such that the change in law would not be reasonably expected to have a Material Adverse Effect or compensation adequate to address any Material Adverse Effect that would be reasonably expected to occur as a consequence of the change in law, then, for so long as such negotiations are continuing no Loan Event of Default under this paragraph will occur and no Restricted Payment may be made until the earliest of:
 - (A) the date a derogation of the relevant change in law is applied such that the change in law would no longer reasonably be expected to have a Material Adverse Effect;
 - (B) the date such adequate compensation is received in respect of such change in law to address any Material Adverse Effect that would be reasonably expected to occur as a consequence of the change in law; and
 - (C) the date on which HS1's request for derogation from application or compensation has been fully and finally determined and no such derogation or compensation has been or will be made available to HS1 such that a Material Adverse Effect would be reasonably expected to occur as a consequence of the change in law, and with effect from such date, the change in law shall constitute a Loan Event of Default.

(j) *Termination of Licence*

Any Authorisation required for a material part of the Permitted Business of any Obligor is terminated and not replaced on terms not materially less favourable (taking into account any changes in the regulatory environment since the date of the CTA) and such termination has or would reasonably be expected to result in a Material Adverse Effect.

(k) *Nationalisation*

The authority or ability of any member of the Security Group to conduct its business is materially limited or wholly or substantially curtailed by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental,

regulatory or other authority or other person in relation to any member of the Security Group or any of its assets, in each case, in a manner or to an extent which has a Material Adverse Effect, provided that, any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person in circumstances where compensation on termination is payable to the Security Group shall not (of itself) constitute a Loan Event of Default and the occurrence of any of the events described in this paragraph shall be without prejudice to any other Loan Event of Default which may occur hereunder as consequence of such events.

(l) *Failure to comply with Judgment*

Any Obligor fails to comply with any final judgment where such failure has or would be reasonably likely to have a Material Adverse Effect.

(m) *Material Proceedings*

(i) Any litigation is brought against an Obligor or in respect of its assets or revenues which, in any such case, would be reasonably likely to be adversely determined and which, if so adversely determined, has or would reasonably be expected to have a Material Adverse Effect.

(ii) Any execution proceedings are enforced in relation to any assets of any Obligor where such enforcement has or would reasonably be expected to have a Material Adverse Effect.

(n) *Principal Project Documents*

(i) It is or becomes unlawful for an Obligor to perform any of its material obligations under the Principal Project Documents or any Principal Project Document ceases to be effective.

(ii) Any obligation or obligations of any Obligor under any Principal Project Document are not (subject to the Reservations) or cease to be legal, valid, binding or enforceable subject to the Reservations.

(iii) Any Principal Project Document is terminated in accordance with its terms and the terms of the relevant Financing Direct Agreement and HS1: (aa) has not challenged such termination within the prescribed period; and/or (bb) has exhausted all rights of challenging such termination in accordance with the terms of the relevant Principal Project Document.

(iv) None of paragraphs (i), (ii) or (iii) shall apply if:

(A) HS1 certifies that such services can be adequately performed by the Holdco Group from its own resources and/or that it is entering into or is taking steps to enter into a replacement contract(s) with a counterparty or counterparties which, in the opinion of HS1 acting reasonably, are of adequate technical and financial standing to provide such services; or

(B) HS1 is entitled to receive adequate compensation in respect of the matters received in (i) to (iii) above which, once received and applied by HS1, will result in any such unlawfulness, illegality, invalidity, unenforceability or termination or any Principal Project Document not having a Material Adverse Effect; or

(C) the HS1 Security Trustee has not elected to step-in and assume joint liability under the terms of the relevant Principal Project Document pursuant to the relevant Financing Direct Agreement; or

- (D) such unlawfulness, invalidity, unenforceability or termination does not have or would not reasonably be expected to have a Material Adverse Effect.
- (v) Notwithstanding paragraph (iv), if:
 - (A) any unlawfulness, invalidity, unenforceability or termination of a Project Document has occurred which has or would reasonably be expected to have a Material Adverse Effect; and
 - (B) HS1 has, in accordance with paragraph (iv)(A) certified that it is entering into or has taken appropriate steps to enter into a replacement contract(s) (and such certification has not been withdrawn) or, in accordance with paragraph (iv)(B) HS1 is entitled to receive adequate compensation in respect of the relevant matters; but
 - (C) in respect of:
 - (I) any Principal Project Document (other than a Key Principal Project Document), on the date falling twelve (12) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant unlawfulness, invalidity, unenforceability or termination has occurred such a replacement contract(s) has/have not been entered into or such compensation has not been received by HS1; or
 - (II) any Key Principal Project Document, on the date falling six (6) months (or such longer period as may be agreed between the Obligors and the HS1 Security Trustee) after the relevant unlawfulness, invalidity, unenforceability or termination has occurred such a replacement contract(s) has/have not been entered into or such compensation has not been received by HS1,

then a breach of this covenant shall occur on that date.

(o) *Cross Default*

Any of the following occurs in respect of any Obligor:

- (i) non-payment of amounts payable after the expiry of any originally applicable grace period in respect of any of its Financial Indebtedness (other than in respect of the HS1 Senior Debt or subordinated Financial Indebtedness) in excess of £15,000,000 threshold (Indexed); or
- (ii) an amount of its Financial Indebtedness (other than in respect of the HS1 Senior Debt or subordinated Financial Indebtedness) in excess of £15,000,000 threshold (Indexed):
 - (A) is declared due and payable prior to its specified maturity; or
 - (B) is capable of being declared by a creditor to be prematurely due and payable prior to its specified maturity,

in each case, as a result of an event of default (howsoever described).

(p) *Bond Event of Default*

The occurrence of a Bond Event of Default.

(q) *Equity Cure*

(i) If a Compliance Certificate delivered to the HS1 Security Trustee for any period shows that there is a breach in respect of a Financial Ratio Event of Default, the Investors may provide or procure the provision of Additional Equity in an amount at least sufficient for the amount necessary to cure the relevant breach (the “**Equity Cure Amount**”) by applying that Equity Cure Amount *pro rata* according to the respective principal amounts outstanding of:

(A) the Outstanding IBLA Balances; and

(B) the Pari Passu HS1 Senior Debt,

towards:

(I) in respect of the amount to be applied in respect of Outstanding IBLA Balances:

(aa) prepayment of Outstanding IBLA Balances or purchase of the Bonds corresponding to the Outstanding IBLA Balances together with any related Repayment Costs; and/or

(bb) making a deposit to an HS1 Defeasance Account in respect of such HS1 Defeased Debt (to the extent not purchased or prepaid pursuant to this sub-paragraph (I)); and

(II) in respect of the amount to be applied in respect of the Pari Passu HS1 Senior Debt:

(aa) prepayment or purchase of Pari Passu HS1 Senior Debt;

(bb) making a deposit to an HS1 Defeasance Account in respect of such Pari Passu HS1 Senior Debt (to the extent not purchased or prepaid pursuant to this sub-paragraph (II)); and

(cc) payment of any related Repayment Costs, including, without limitation, paying the related amount payable to HS1 Hedge Counterparties arising as a result of termination (in whole or in part) of any HS1 Hedging Transactions following the prepayment or purchase of the Pari Passu HS1 Senior Debt, to the extent that such termination is necessary in order to remain in compliance with the Hedging Policy following such prepayment or purchase (an “**Equity Cure Right**”).

(ii) The exercise of the Equity Cure Right shall be subject to any limitations thereon in any Authorised Credit Facilities.

(iii) Any Equity Cure Amount must be provided on or prior to the date falling 20 Business Days after the delivery of the relevant Compliance Certificate.

- (iv) On application of the Equity Cure Amount, the financial ratio that was the subject of the breach of the Financial Ratio Event of Default will be re-calculated on a pro forma basis:
 - (A) if the Financial Ratio Event of Default is a breach of the Historic DSCR, as if the Equity Cure Amount had been applied at the commencement of the relevant historic Test Period, such that the Historic Consolidated Debt Service shall be deemed as at the relevant Test Date to have been reduced by the amount of Historic Consolidated Debt Service which is attributable to the HS1 Senior Debt which has been prepaid, purchased and/or defeased; and/ or
 - (B) if the Financial Ratio Event of Default is a breach of the Projected DSCR, as if the Equity Cure Amount had been applied on the Test Date in respect of such Test Period in accordance with sub-paragraph (A) above, such that the Projected Consolidated Debt Service shall be deemed as at the relevant Test Date to have been reduced by the amount of Projected Consolidated Debt Service which is attributable to the HS1 Senior Debt which has been prepaid, purchased and/or defeased.
- (v) If after the applicable financial ratio that was the subject of the breach of the Financial Ratio Event of Default is re-calculated, the breach has been prevented or cured, that financial ratio shall be deemed to have been satisfied on the date of the relevant Compliance Certificate as though no breach had ever occurred and any related Financial Ratio Event of Default or projected Trigger Event Ratio shall be deemed not to occur or have occurred, as applicable.

“**Additional Equity**” means:

- (a) any amount subscribed in cash for shares in HS1 or, provided that the cash consideration in respect of such shares is in turn paid to HS1, any Holding Company of HS1 or any other form of capital contribution in cash to HS1 (which is not Financial Indebtedness and provided that repayment (if any) of such amounts are subject to the terms of the STID); or
- (b) the incurrence of subordinated intragroup liabilities by HS1 or, provided that the proceeds of such subordinated intragroup liabilities are in turn paid to HS1, any Holding Company of HS1;

which in each case may be contributed by way of further subscription for equity or incurrence of intra-group loans between Holdco and HS1 the terms of which shall be subject to the terms of the STID.

Hedging Policy

Pursuant to the CTA, the members of the Security Group and the Issuer will agree to be bound by a hedging policy (the “**Hedging Policy**”) the purpose of which is to limit the exposure of the Issuer and HS1 to fluctuations in interest rates, currencies and inflation.

The Hedging Policy will provide that no member of the Security Group nor the Issuer will enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis and which shall include pre-hedging. If the Issuer enters into the Treasury Transactions, the economic effect of such Treasury Transactions shall be passed on to HS1 either through an IBLA or by way of back-to-back hedge agreements between HS1 and the Issuer. The Hedging Policy does not apply to any Treasury Transaction entered into by members of the Security Group or the Issuer in the ordinary course of business and for non-speculative purposes where the counterparty does not accede to the STID.

Any change to the Hedging Policy will be subject to the approval of the HS1 Security Trustee (acting on the instructions of the requisite majority of Qualifying HS1 Secured Creditors (but at all times subject to Entrenched Rights and Reserved Matters) in accordance with the terms of the STID). Subject to such approval, the Hedging Policy will be reviewed from time to time by the Security Group and the Issuer and may be amended as appropriate in line with market practice, regulatory developments and good industry practice (subject to Entrenched Rights and Reserved Matters and in accordance with the provisions of the STID). Notwithstanding the above, no amendment, waiver, modification or termination (in whole or part) of this Hedging Policy required to meet the requirements of the Rating Agencies from time to time will require the consent of any party other than HS1, HSRF or the Issuer (as the case may be). In the event that the Issuer, HSRF and/or HS1 (as the case may be) is required to make any change to the Hedging Policy in order to comply with the requirements of the Rating Agencies, the HS1 Security Trustee shall be required to execute such document as is necessary to give effect to such change to the Hedging Policy (acting in accordance with STID).

For the purposes of determining whether or not there is an Overhedged Position, the notional amount and/or currency amount of a Hedging Transaction (the “**First Hedging Transaction**”) on any date will be reduced by the notional amount or corresponding currency amount of another Hedging Transaction (the “**Second Hedging Transaction**”) on that date if that Second Hedging Transaction is an Offsetting Transaction in respect of the First Hedging Transaction. For this purpose, “**Offsetting Transaction**” means, in respect of the Second Hedging Transaction, a Hedging Transaction which (i) has been entered into with a Hedge Counterparty which has acceded to the STID and the CTA; (ii) is governed by a Hedging Agreement; and (iii) where HS1, HSRF or the Issuer (as applicable) receives amounts under the First Hedging Transaction on a particular basis, it pays such amounts on such basis under the Second Hedging Transaction and vice versa.

Prior to the occurrence of a Loan Event of Default which is continuing and prior to the designation of an Early Termination Date under (and as defined in) the relevant Hedging Agreement, HS1, HSRF and/or the Issuer (as applicable) may contact any Hedge Counterparty at any time to discuss, negotiate and agree the termination of or any amendment to any particular Hedging Transaction prior to the stated or expected term of that Hedging Transaction under the relevant Hedging Agreement, provided that the Security Group and the Issuer remain in compliance with the Hedging Policy notwithstanding any such termination and/or amendment.

Currency Risk Principles

HS1, HSRF and the Issuer (after taking into account currency hedging and any natural hedging arising from operating income of the Security Group and the Issuer received in any relevant foreign currency):

- (a) must not bear unhedged currency risk in respect of the interest payable to expected maturity and the repayment of principal under any foreign currency denominated debt instruments; and
- (b) shall ensure that no more than 100 per cent. of the total outstanding Relevant Non-GBP Debt is subject to currency hedging.

If on any date on and from the date of the CTA the Total Notional Hedged Amount exceeds the FX Hedging Limit (after taking account of any Offsetting Transactions) as at such date, HS1, HSRF and/or the Issuer (as the case may be) by notice to the relevant Hedge Counterparties, which are party to any Hedging Transaction which was entered into by HS1, HSRF and/or the Issuer, as applicable in connection with any Relevant Debt that has been repaid, may request the termination of all or part of any Hedging Transaction (which shall be the “**Affected Transaction(s)**”) in order to comply with the FX Hedging Limit. Provided that, in the event of a termination event pursuant to the foregoing the rights of HS1, HSRF and/or the Issuer (as the case may be) to terminate the Affected Transaction(s) in accordance with the relevant Hedging Agreement will be limited to the amount required in order to comply with the FX Hedging Limit (provided that such amount shall not exceed an amount equal to the relevant Hedge Counterparty’s Currency Rate Hedge Proportion of the Currency Rate Hedge Excess) and which would not result in HS1, HSRF and/or the Issuer being in breach of this Hedging Policy.

For the purposes of the above:

“Aggregate Currency Rate Hedged Amount” means, in relation to a Hedge Counterparty, the aggregate of the notional amounts hedged by a member of the Security Group or the Issuer under each Hedging Agreement (excluding any notional amount which is or is subject to an Offsetting Transaction) which is a Currency Hedging Transaction and to which that Hedge Counterparty is party.

“Currency Rate Hedge Excess” means the amount by which the Total Currency Rate Hedged Amount exceeds the Required Maximum Currency Rate Hedged Amount.

“Currency Rate Hedge Proportion” means the proportion (expressed as a percentage) borne by such Hedge Counterparty’s Aggregate Currency Rate Hedged Amount to the Total Notional Hedged Amount, as calculated by HS1 in good faith and a commercially reasonable manner.

“Currency Rate Hedged Outstandings” means, at any time, the aggregate of all amounts of principal (not including any capitalised or deferred interest) outstanding in respect of the Relevant Non-GBP Debt.

“Currency Hedging Transactions” means Hedging Transactions between a Hedge Counterparty and a member of the Security Group or the Issuer which hedge the Security Group’s or the Issuer’s, as applicable, currency exposure under the Relevant Non-GBP Debt.

“FX Hedging Limit” means 100% of the Relevant Non-GBP Debt.

“Required Maximum Currency Rate Hedged Amount” means, at any time, an amount equal to 100% of the Currency Rate Hedged Outstandings at that time.

“Relevant Non-GBP Debt” means Relevant Debt denominated in a currency other than sterling.

“Total Currency Rate Hedged Amount” means, at any time, the aggregate of each Aggregate Currency Rate Hedged Amount at that time.

“Total Notional Hedged Amount” means the aggregate of notional amounts (as specified in the relevant confirmations) of Currency Hedging Transactions entered into between a member of the Security Group or the Issuer and any Hedge Counterparty in respect of the Relevant Non-GBP Debt.

Interest Rate Risk Principles

HS1, HSRF and the Issuer shall hedge the interest rate risk in relation to the total outstanding Senior Hedged Debt to ensure that at any time:

- (a) a minimum of 70 per cent. of the total outstanding Relevant Debt (i) is fixed rate, (ii) is index-linked or (iii) effectively bears either a fixed rate or an index-linked rate of interest for a period of at least of at 7 years (or, if shorter, the period up to and including the expiry of the Concession Agreement) (including, without limitation, pursuant to any interest rate cap) pursuant to Hedging Transactions; and
- (b) no more than 110 per cent. of the total outstanding Relevant Debt (i) is fixed rate, (ii) is index-linked or (iii) effectively bears either a fixed rate or an index-linked rate of interest pursuant to the Hedging Transactions (including, without limitation, pursuant to any interest rate cap, option or other Hedging Transaction which does not impose further obligations to pay money on HS1, HSRF and/or the Issuer (as applicable));

in each case, taking into account any Offsetting Transactions to which HS1, HSRF and/or the Issuer is a party.

For the purpose of the interest rate risk principles, **“Relevant Debt”** shall mean the principal amount outstanding under the Initial Authorised Credit Facilities Agreement, each IBLA, the PP Notes or any debt under any equivalent Authorised Credit Facility (other than any WC Facility, Liquidity Facility and the HS1 Hedging Agreements) from time to time.

In the event that more than 110 per cent. of the sum of the total outstanding Relevant Debt (i) is fixed rate, (ii) is index-linked or (iii) effectively bears either a fixed rate or an index-linked rate of interest pursuant to the Hedging Transactions (after taking into account any Offsetting Transaction to which HS1, HSRF and/or the Issuer is a party) (an “**Overhedged Position**”), then HS1, HSRF and/or the Issuer (as the case may be) must, within 30 days of becoming aware of the Overhedged Position, reduce the notional amount of the Hedging Transactions (which may be achieved by terminating one or more Hedging Transactions (in whole or in part) (without any obligation to notify any other Hedge Counterparty of such termination) and/or entering into Offsetting Transactions so that it is in compliance with the parameters described above.

During the first 25 days after becoming aware of an Overhedged Position, HS1, HSRF and/or the Issuer (as the case may be) may effect any such termination by terminating one or more Hedging Transactions at its sole discretion and terminating such Hedging Transactions (in whole or in part) on terms to be agreed in good faith between HS1, HSRF and/or the Issuer (as the case may be) and the relevant Hedge Counterparties.

Upon agreeing terms with one or more Hedge Counterparties that are satisfactory to HS1, HSRF and/or the Issuer (as the case may be) (the “**Preferred Hedge Termination Terms**”), prior to terminating Hedge Transaction (in whole or in part with such Hedge Counterparties, HS1, HSRF and/or the Issuer (as the case may be) shall notify the other Hedge Counterparties of the Preferred Hedge Termination Terms. The other Hedge Counterparties shall then have a period of two Business Days following such notification to notify HS1, HSRF and/or the Issuer (as the case may be) whether it wishes to terminate the Hedging Transaction that it is a party to on the Preferred Hedge Termination Terms. On the Business Day following the end of the two Business Days period, HS1, HSRF and/or the Issuer (as the case may be) shall effect the termination of the Hedging Transactions (in whole or in part) as follows:

- (a) Hedging Transactions entered into between HS1, HSRF and/or the Issuer (as the case may be) and the Hedge Counterparties who have agreed the Preferred Hedge Termination Terms shall be terminated (in whole or in part) on the Preferred Hedge Termination Terms on a *pro rata* basis so as to reduced the Overhedged Position by at least 50 per cent.; and
- (b) such other Hedging Transactions selected by HS1, HSRF and/or the Issuer (as the case may be) at its sole discretion shall be terminated (in whole or in part) on terms agreed in good faith between HS1, HSRF and/or the Issuer (as the case may be) and the relevant Hedge Counterparties.

If (i) at the end of the 25th day HS1, the PP Note Issuer and/or the Issuer (as the case may be) has not agreed the Preferred Hedge Termination Terms with one or more Hedge Counterparties, or (ii) HS1, the PP Note Issuer and/or the Issuer (as the case may be) has agreed the Preferred Hedge Termination Terms with one or more Hedge Counterparties but an Overhedging Position remains following the termination of the Hedging Transactions in accordance with the paragraph above, HS1, HSRF and/or the Issuer (as the case may be) may only effect any such termination by terminating Hedging Transactions (in whole or in part) as a result of any Relevant Debt being prepaid giving rise to such Hedging Transactions being no longer required. If HS1, HSRF and/or the Issuer (as the case may be) terminates any Hedging Transaction in accordance with the preceding sentence, HS1, HSRF and/or the Issuer (as the case may be) shall notify the relevant Hedge Counterparties which are a party to any Hedging Transaction which was entered into by HS1, HSRF and/or the Issuer, as applicable in connection with any Relevant Debt that has been repaid, of (i) the amount by which it is overhedged and (ii) the Hedging Transactions (or parts hereof) that should be terminated in order to comply with the parameters in the paragraph above, on the basis that no more Hedging Transactions (or parts thereof) should be terminated than is necessary to comply with the parameters in the paragraph above.

In the event that HS1, HSRF and/or the Issuer elects (provided it remains in compliance with the Hedging Policy) to reduce the notional amount of any Combined Swap Transaction (in whole or in part) (such notional amount to be so reduced, the “**Combined Swap Termination Amount**”) on terms (including, without limitation, the selection of the relevant Hedging Transactions) agreed in good faith between, HS1, HSRF and/or the Issuer (as the case shall be) and the relevant Hedge Counterparty or Hedging Counterparties (the “**Combined Swap Termination Terms**”), HS1, HSRF and/or the Issuer

(as the case shall be) shall, prior to terminating such Combined Swap Transaction (in whole or in part), notify the other Hedge Counterparties which have outstanding Combined Swap Transaction(s) with HS1, HSRF and/or the Issuer (as the case shall be) of such Combined Swap Termination Terms. Each other such Hedge Counterparty shall then have a period of two Business Days following such notification to notify HS1, HSRF and/or the Issuer (as the case may be) whether it wishes to terminate (in whole or in part) the Combined Swap Transaction that it is a party to on the Combined Swap Termination Terms. On the Business Day following the end of the two Business Day period, HS1, HSRF and/or the Issuer (as the case may be) shall effect the termination of the Combined Swap Transactions (in whole or in part) as follows:

- (a) Combined Swap Transactions entered into between HS1, HSRF and/or the Issuer (as the case may be) and the relevant Hedge Counterparties which have agreed the Combined Swap Termination Terms shall be terminated (in whole or in part) on the Combined Swap Termination Terms on a *pro rata* basis across the relevant Hedge Counterparties so as to reduce the Combined Swap Termination Amount by at least 50 per cent.; and
- (b) such other Combined Swap Transactions selected by HS1, HSRF and/or the Issuer (as the case may be) in its sole discretion shall be terminated (in whole or in part) on terms agreed in good faith between HS1, HSRF and/or the Issuer (as the case may be) and the relevant Hedge Counterparty or Hedge Counterparties,

so as to reduce the aggregate notional amounts of the Combined Swap Transactions entered into by HS1, HSRF and/or the Issuer (as the case may be) by an amount equal to the Combined Swap Termination Amount.

Notwithstanding the above, HS1, HSRF and/or the Issuer shall not be obliged to terminate any cap, option or other Hedging Transaction which does not impose further obligations to pay money on HS1, HSRF and/or the Issuer (as applicable) as a result of the above provisions and such Hedging Transactions shall not be taken into account when considering whether an Overhedged Position exists.

Rating requirements in relation to Hedge Counterparties

The Issuer, HS1 and HSRF will only be permitted to enter into Treasury Transactions with counterparties whose unsecured and unsubordinated debt obligations are assigned a rating which is no less than the Minimum Short Term Rating or the Minimum Long Term Rating, or where a guarantee is provided by an institution which meets the same criteria. If at any time the rating of the unsecured and unsubordinated debt obligations of a Hedge Counterparty (or, if relevant, its guarantor) falls below investment grade by any Rating Agency each a “**Hedge Counterparty Downgrade**”, HS1, HSRF and/or the Issuer (as the case may be) may require the relevant Hedge Counterparty, at its own cost, to take one of the following actions (for the avoidance of doubt, subject to the proviso to (d) below, the relevant Hedge Counterparty may select the relevant action at its discretion):

- (a) procure that another person become co-obligor or guarantor in respect of its obligations under the relevant Hedging Agreement such other person having a rating of no less than the Minimum Short Term Rating or the Minimum Long Term Rating;
- (b) provide collateral in accordance with the provisions of a collateral agreement;
- (c) transfer all of its rights and obligations under the Hedging Agreement to a replacement third party having a rating of no less than the Minimum Short Term Rating or the Minimum Long Term Rating; or
- (d) take such other action (which may, for the avoidance of doubt, include taking no action) as will result in the rating of the Rated Debt outstanding being maintained at, or restored to, at least the level it was immediately prior to such Hedge Counterparty Downgrade, *provided that*, if, following the occurrence of a Hedge Counterparty Downgrade, an event or circumstance occurs that would result in the rating of the Rated Debt being increased to above the highest then current rating of the Rated Debt if the relevant Hedge Counterparty were to

take any one of the actions specified in sub-paragraphs (a) to (c) above, the Hedge Counterparty will be required to take any one of the actions specified in sub-paragraphs (a) to (c) above, notwithstanding this sub-paragraph (d).

For the purposes of this paragraph, “**Rated Debt**” means (i) prior to the issuance of the Bonds, the Initial PP Notes, and (ii) following the issuance of the Bonds, the Bonds.

If the relevant Hedge Counterparty does not taken any of the measures above within 30 Business Days of the occurrence of the request by HS1, HSRF and/or the Issuer (as the case may be), then HS1, HSRF and/or the Issuer (as the case may be) shall be entitled to terminate all Hedging Transactions with such Hedge Counterparty.

The ratings requirements with respect to credit ratings are to be tested only on the entry into the relevant Hedging Transaction. Without prejudice to any of HSRF’s, the Issuer’s or HS1’s obligations to comply with the ratings requirements on entry into a Hedging Transaction, neither will have any obligation to take any action (or to cease to take any action) if a Hedge Counterparty subsequently ceases to satisfy the criteria set out in the Hedging Policy with respect to counterparties, or fails to take any of the measures set out above.

Principles relating to Hedging Agreements

All Hedging Agreements entered into by HS1 or the Issuer will be required to be in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency - Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the HS1 Security Trustee (acting in accordance with the STID).

HS1, HSRF and the Issuer will be entitled to enter into Hedging Agreements with Hedge Counterparties that rank *pari passu* or senior in priority to the HS1 Senior Debt and the Issuer Senior Debt.

Principles relating to the termination of Hedging Agreements

The following terms shall apply with respect to the termination of HS1 Hedging Agreements and Issuer Hedging Agreements:

- (a) “Market Quotation” and “Second Method” shall apply (other than where that termination occurs pursuant to either “Optional Early Termination” or “Mandatory Early Termination” as defined in the applicable Hedging Transaction (incorporating the 2006 ISDA Definitions or any replacement thereof) and provided that it may be deemed that Market Quotation cannot be determined for any Terminated Transaction that is an FX Transaction or Currency Option Transaction (as defined in the 1998 FX and Currency Option Definitions, as amended, varied or replaced from time to time as published by the International Swaps and Derivatives Association, Inc.).
- (b) A Hedge Counterparty may only terminate a Hedging Agreement or a Hedging Transaction if:
 - (i) with respect to an HS1 Hedging Agreement:
 - (A) there is a failure to make a payment or delivery under an HS1 Hedging Transaction or HS1 Hedging Agreement provided that at least 5 Business Days have elapsed following any such failure to pay;
 - (B) a Loan Event of Default in respect of which the HS1 Senior Debt is accelerated in full;
 - (C) following delivery of a Loan Enforcement Notice but prior to the delivery of a Loan Acceleration Notice, the HS1 Secured Creditors accelerate part of their claims pursuant to the STID;

- (D) all Relevant Debt is irrevocably and unconditionally repaid, prepaid or cancelled in full; or
 - (E) any Bankruptcy (as defined in the ISDA Master Agreement) (as amended by the relevant schedule to such Hedging Agreement to disapply, with respect to HS1, (i) Section 5(a)(vii)(2), (7) and (9) of the standard ISDA Master Agreement) (ii) Section 5(a)(vii)(3) of the standard ISDA Master Agreement to the extent that it refers to any assignment, arrangement or composition that is effected by any Finance Document, (iii) Section 5(a)(vii)(4) of the standard ISDA Master Agreement to the extent that it refers to any proceedings or petitions instituted or presented by any Hedge Counterparty or any Affiliate (as defined in the relevant Hedging Agreement) thereof, (iv) Section 5(a)(vii)(6) of the standard ISDA Master Agreement to the extent that it refers to (1) any appointment that is contemplated or effected by any document to which the relevant Hedge Counterparty is a party in connection with the transactions contemplated by the Bond Trust Deed or (2) any such appointment to which HS1 has not yet become subject and (v) Section 5(a)(vii)(8) of the standard ISDA Master Agreement to the extent that it applies to Section 5(a)(vii)(1), (3), (4), (5) and (6) as they apply with respect to HS1) if it relates to an event that has occurred in relation to HS1;
- (ii) with respect to an Issuer Hedging Agreement:
- (A) there is a failure to make a payment or delivery under the Issuer Hedging Agreement provided that at least 5 Business Days have elapsed following any such failure to pay;
 - (B) a Bond Event of Default in respect of which the Bonds are accelerated in full;
 - (B) following delivery of a Loan Enforcement Notice but prior to the delivery of a Loan Acceleration Notice, the Issuer accelerates part of its claim for the repayment of principal under each IBLA pursuant to the STID; or
 - (C) all Relevant Debt is irrevocably and unconditionally repaid, prepaid or cancelled in full; or
 - (D) any Bankruptcy (as defined in the ISDA Master Agreement) (as amended by the relevant schedule to such Hedging Agreement to disapply, with respect to the Issuer, (i) Section 5(a)(vii)(2), (7) and (9) of the standard ISDA Master Agreement); (ii) Section 5(a)(vii)(3) of the standard ISDA Master Agreement to the extent that it refers to any assignment, arrangement or composition that is effected by any Finance Document, (iii) Section 5(a)(vii)(4) of the standard ISDA Master Agreement to the extent that it refers to any proceedings or petitions instituted or presented by any Hedge Counterparty or any Affiliate (as defined in the relevant Hedging Agreement) thereof, (iv) Section 5(a)(vii)(6) of the standard ISDA Master Agreement to the extent that it refers to (1) any appointment that is contemplated or effected by any document to which the relevant Hedge Counterparty is a party in connection with the transactions contemplated by the Bond Trust Deed or (2) any such appointment to which the Issuer has not yet become subject and (v) Section 5(a)(vii)(8) of the standard ISDA Master Agreement to the extent that it applies to Section 5(a)(vii)(1), (3), (4), (5) and (6) as they apply with respect to the Issuer) if it relates to an event that has occurred in relation to the Issuer;

- (iii) A Hedging Transaction is entered into which does not comply with the Hedging Policy, provided that the Hedge Counterparty to such Hedging Transaction may only designate an Early Termination Date in respect of such Hedging Transaction.
 - (iv) Any Illegality, Tax Event or Tax Event upon Merger (as each is defined in the ISDA Master Agreement) occurs.
 - (v) If a break clause or right of early termination (whether mandatory or optional) granted in favour of HS1, HSRF or the Issuer as applicable or the relevant Hedge Counterparty is exercisable in accordance with the terms of the relevant Hedging Transaction.
- (c) If rights of “Optional Early Termination” or “Mandatory Early Termination” are included in a Hedging Transaction, the Issuer, HSRF or HS1 (as applicable) and the relevant Hedge Counterparty shall specify the applicable “Cash Settlement Method” as defined in the applicable Hedging Transaction (incorporating the 2006 ISDA Definitions or any replacement thereof).

Obligor Cash Management

Operating Accounts

The CTA requires each Obligor to open and maintain the Obligor Operating Accounts with the Account Bank as are required for the Permitted Business.

Under the CTA, each Obligor will ensure that all of its revenues but excluding:

- (a) any Standby Drawing;
- (b) any interest or income which shall be credited to the Account upon which such interest accrued and/or from which such Cash Equivalent Investment was made;
- (c) any amounts required or elected by HS1 to be deposited into the Escrow Accounts;
- (d) any amounts required or elected by an Obligor to be deposited into any HS1 Defeasance Account; and
- (e) any amounts received in respect of a grant or other financial accommodation provided by any government entity or organisation (including, without limitation, Network Rail) to the extent provided in order to be applied for a specific purpose which are deposited in an HS1 Specific Account,

will be paid into an Obligor Operating Account in its name or into the Obligor Debt Service Reserve Account in its name.

HS1 is permitted to use the funds in the HS1 Operating Accounts to make payments in respect of Capital Expenditure, operating expenses, Taxes (including payments in consideration for Group Relief in lieu of Tax), Restricted Payments and any other payment not prohibited pursuant to the Transaction Documents.

The Obligor Operating Accounts will be the sole current accounts of the Obligors (other than the Escrow Accounts, any HS1 Defeasance Account and any HS1 Specific Accounts) through which all operating and capital expenditures, any Taxes incurred by the Obligors and (subject to the terms of the Finance Documents) payments in respect of the Financial Indebtedness of the Security Group and Restricted Payments will be cleared.

Operating expenditure and Capital Expenditure (other than Capital Expenditure to be funded from the Escrow Accounts) of the Obligors will be funded:

- (a) through payments received directly into the Obligor Operating Accounts;
- (b) through amounts received in respect of a grant or other financial accommodation provided by any government entity or organisation (including, without limitation, Network Rail);
- (c) through drawings made by an Obligor under any Authorised Credit Facility or other Permitted Financial Indebtedness, including from the Issuer under each IBLA,

as and when required and not prohibited by the Finance Documents but subject, where applicable, to the restrictions in the CTA.

Prior to delivery of a Loan Enforcement Notice, on each Payment Date, payments to the HS1 Secured Creditors will be made out of monies standing to the credit of the Obligor Operating Accounts (subject to certain exceptions) in accordance with the HS1 Pre-Enforcement Priority of Payments. See "*Cashflows –HS1 Pre-Enforcement Priority of Payments*" below for a detailed description.

Cash Equivalent Investments

The Security Group may invest in Cash and/or Cash Equivalent Investments from the amounts standing to the credit of any of the Obligor Operating Accounts from time to time as is prudent, but may only invest in Cash Equivalent Investments which are held to the order of the Security Group or any member thereof. The Security Group will at all times ensure to the best of its knowledge that a prudent spread of any Cash Equivalent Investments is maintained and liquidate (or ensure that there are liquidated) Cash Equivalent Investments to the extent necessary to make payments due under the Finance Documents.

The Security Group shall procure that the maximum average life of a Cash Equivalent Investment is appropriate having regard to the credits to be made to and payments from the Obligor Operating Accounts. If any investment ceases to be a Cash Equivalent Investment, the Security Group must as soon as reasonably practicable after becoming aware of that fact (and in any event, no more than 30 Business Days after that time) replace the investment with a Cash Equivalent Investment or with cash.

Any reference in any Finance Document to the balance standing to the credit of one of the Obligor Operating Accounts will be deemed to include a reference to the Cash Equivalent Investments in which all or part of such balance is for the time being invested.

These provisions shall apply to the Escrow Accounts, HS1 Defeasance Accounts, and HS1 Specific Accounts, *mutatis mutandis*, as if references in those clauses to the Obligor Operating Accounts were references to the Escrow Accounts, HS1 Defeasance Accounts and HS1 Specific Accounts, but provided that, the term of any investment in Cash Equivalent Investments funded from amounts from time to time standing to the credit of any of such accounts shall be appropriate having regard to the expected duration of the credit balances of those accounts from time to time.

Liquidity Facility

HS1 shall determine the amount of any anticipated HS1 Liquidity Shortfall on the next Payment Date after taking into account the balance standing to the credit of the Obligor Operating Accounts (excluding any HS1 Hedge Collateral Accounts) and Obligor Debt Service Reserve Account which will be available to HS1 on the next Payment Date.

If, after application of the balance standing to the credit of the Obligor Operating Accounts and Obligor Debt Service Reserve Account (if any) there is an HS1 Liquidity Shortfall, HS1 shall deliver a LF Notice of Drawing to the Liquidity Facility Agent.

At the time any LF Notice of Drawing is delivered by HS1 to the Liquidity Facility Agent in respect of a Payment Date, HS1 shall notify the HS1 Security Trustee of the amount of any applicable HS1 Liquidity Shortfall in respect of the next Payment Date.

The amount of the Liquidity Loan Drawing shall immediately be credited to the Obligor Operating Accounts and applied in accordance with the paragraph below.

Prior to the delivery of a Loan Acceleration Notice, HS1 in respect of each Payment Date shall determine the amount of any HS1 Liquidity Shortfall and if following such determination there is an HS1 Liquidity Shortfall:

- (a) transfer the balance standing to the credit of the Obligor Debt Service Reserve Account (if any) to the Obligor Operating Accounts; and
- (b) if necessary and to the extent available, make a drawing under the Liquidity Facility,

to decrease the amount which would otherwise constitute an HS1 Liquidity Shortfall on the relevant Payment Date by applying such moneys so transferred or drawn down towards payment of items (a) to (g) (inclusive) of the HS1 Pre-Enforcement Priority of Payments.

Application of HS1 Pre-Enforcement Priority of Payments in certain circumstances.

If, prior to the delivery of a Loan Enforcement Notice after taking into account all available liquidity:

- (a) a Hedge Counterparty becomes entitled to terminate any Treasury Transaction under an HS1 Hedging Agreement due to non-payment of any amounts by HS1 due and payable thereunder or due to the occurrence of any event set out in sub-paragraph (b)(v) of the section entitled “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy – Principles relating to the termination of Hedging Agreements*” above; or
- (b) on any Payment Date there are insufficient funds available to the Obligors to pay in full all HS1 Secured Liabilities falling due for payment on such date,

then for so long as any such event is continuing unremedied or unwaived, the HS1 Pre-Enforcement Priority of Payments shall apply in respect of all payments to HS1 Secured Creditors and HS1 shall ensure that no amounts are applied in discharging any liabilities due to an HS1 Secured Creditor unless on the date such amounts are to be applied all sums then due and payable to each prior ranking HS1 Secured Creditor have been first discharged in full.

Defeasance Accounts

- (a) In relation to any HS1 Senior Debt the terms of which permit an Obligor to defease such HS1 Senior Debt and pay the relevant HS1 Defeasance Amount into an HS1 Defeasance Account rather than to prepay it in circumstances set out in the relevant Finance Documents, these provisions will apply to the management and operation of any such HS1 Defeasance Account.
- (b) Amounts will be credited to the HS1 Defeasance Accounts as follows:
 - (i) as optional prepayments following a Level 2 Trigger Event;
 - (ii) pursuant to the exercise of an equity cure as described in paragraph (q) of “*Loan Events of Default*” above; and
 - (iii) pursuant to the relevant provisions of the Authorised Credit Facilities relating to the relevant HS1 Senior Debt.
- (c) If a Trigger Event has occurred and is continuing (as evidenced, in respect of a Financial Covenant Trigger Event only, by the most recently delivered Compliance Certificate) the relevant Obligor may at any time in its absolute discretion withdraw amounts standing to the credit of the relevant HS1 Defeasance Account to:

- (i) make payments in respect of the relevant HS1 Senior Debt (or the Bonds corresponding to such HS1 Senior Debt) to which the relevant HS1 Defeasance Account relates (together with any Repayment Costs); and/or
 - (ii) make market purchases of any HS1 Senior Debt (or the Bonds corresponding to such HS1 Senior Debt) to which the relevant HS1 Defeasance Account relates for a purchase price not exceeding the aggregate of (i) par and (ii) any related Repayment Costs.
- (d) Subject to paragraph (h) below, if, following a credit to the HS1 Defeasance Account following a Trigger Event:
- (i) the Compliance Certificates delivered to the HS1 Security Trustee in respect of two consecutive Test Dates show that no Trigger Event is continuing or (in respect of a Trigger Event which is not a Financial Covenant Trigger Event) that such Trigger Event has been remedied; or
 - (ii) should the amounts standing to the credit of the HS1 Defeasance Account after the cure of the Trigger Event be applied in accordance with the Finance Documents, no Trigger Event would occur,

then amounts standing to the credit of the HS1 Defeasance Accounts shall be released from the HS1 Defeasance Account and can be applied by the Obligors towards any purpose subject only to any specific requirement in the Finance Documents.

- (e) Subject to paragraph (h) below, if, following a credit to the HS1 Defeasance Account in respect of the exercise of an Equity Cure Right:
- (i) the Compliance Certificates delivered to the HS1 Security Trustee in respect of four consecutive Test Dates show that no Trigger Event is continuing or (in respect of a Trigger Event which is not a Financial Covenant Trigger Event) that such Trigger Event has been remedied; and
 - (ii) should the amounts standing to the credit of the HS1 Defeasance Account after the exercise of an Equity Cure Right be applied in accordance with the Finance Documents, no Trigger Event would occur,

then amounts standing to the credit of the HS1 Defeasance Account shall be released from the HS1 Defeasance Account and can be applied by the Obligors towards any purpose subject only to any specific requirement in the Finance Documents.

- (f) Subject to the above and save as otherwise directed by the relevant HS1 Secured Creditors which are the creditors under the relevant HS1 Senior Debt to which such HS1 Defeasance Account relates, the Obligors shall not withdraw any amounts standing to the credit of the HS1 Defeasance Accounts for so long as a Loan Event of Default is continuing.

- (g) Following the service of a Loan Enforcement Notice, amounts standing to the credit of the HS1 Defeasance Accounts shall be applied solely in payment of amounts owed in respect of the relevant HS1 Senior Debt in accordance with the HS1 Post-Enforcement Priority of Payments.

- (h) If, following a credit to an HS1 Defeasance Account:

- (i) HS1 has calculated the Debt Life Coverage Ratio for the purpose of complying with the Additional Financial Indebtedness tests in the CTA; and
- (ii) HS1 has included the amount standing to the credit of the HS1 Defeasance Account in making that calculation; and

- (iii) HS1 wishes to release amounts standing to the credit of the HS1 Defeasance Account

then HS1 may only release such amounts if, on the date of release of the amounts standing to the credit of the HS1 Defeasance Accounts in accordance with paragraph (d) or (e) above, HS1 provides a certificate to the HS1 Security Trustee confirming that the Debt Life Coverage Ratio (calculated as at the date of release of such amounts and assuming that the amounts to be released have been released and so are no longer standing to the credit of the HS1 Defeasance Account) is no less than 1.55:1.

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the Security Group and the Issuer (the “**Intercreditor Arrangements**”) are contained in the STID and the CTA, and in relation to the Issuer, in the Issuer Deed of Charge (see “*Summary of the Issuer Transaction Documents – Issuer Deed of Charge*”). The Intercreditor Arrangements bind each of the HS1 Secured Creditors (including the Issuer) and each of the Obligor.

The HS1 Secured Creditors will include all providers of HS1 Senior Debt that enter into or accede to the STID. Any new Authorised Credit Provider will be required to accede to the STID and the CTA. The STID also contains provisions restricting the rights of Subordinated Intragroup Creditors and contains mechanics requiring any creditors in respect of Subordinated Intragroup Liabilities to accede to the STID as a Subordinated Intragroup Creditor.

The purpose of the Intercreditor Arrangements is to regulate, among other things (a) the claims of the HS1 Secured Creditors; (b) the exercise, acceleration and enforcement of rights by the HS1 Secured Creditors; (c) the rights of the HS1 Secured Creditors to instruct the HS1 Security Trustee; (d) the Entrenched Rights and the Reserved Matters of the HS1 Secured Creditors; and (e) the giving of consents and waivers and the making of modifications to the Common Documents.

The Intercreditor Arrangements also provide for the ranking in point of payment of the claims of the HS1 Secured Creditors both before and after the delivery of a Loan Acceleration Notice and for the subordination of all claims of Subordinated Intragroup Creditors, or claims among the Security Group. Each HS1 Secured Creditor and each Obligor give certain undertakings in the STID which serve to maintain the integrity of these arrangements. The Issuer Deed of Charge and the Issuer Cash Management Agreement provide for the ranking in point of payment of the claims of the Issuer Secured Creditors (as described further in “*Summary of the Issuer Transaction Documents – The Issuer Deed of Charge*” and “*Summary of the Issuer Transaction Documents – The Issuer Cash Management Agreement*”).

Modifications, Consents and Waivers

General

The STID contains detailed provisions setting out the voting and instruction mechanics in respect of (a) Ordinary Voting Matters; (b) Extraordinary Voting Matters; and (c) Entrenched Rights and Reserved Matters (as further described below in “*Types of Voting Categories*”). Subject to Entrenched Rights and Reserved Matters (which will always require the consent of all of the Secured Creditors in the case of Entrenched Rights, and, in the case of Reserved Matters, only, the relevant Secured Creditors who are affected) and Extraordinary Voting Matters, the HS1 Security Trustee will only agree to any modification of or grant any consent or waiver under the Common Document with the consent of or if so instructed by the relevant majority of Participating Qualifying HS1 Secured Creditors provided that the relevant Quorum Requirement has been met.

HS1 is entitled to provide the HS1 Security Trustee with written notice requesting any modification, consent or waiver it requires under or in respect of any Common Document (a “**STID Proposal**”). The notice will certify whether such STID Proposal is a Discretion Matter, an Ordinary Voting Matter or an Extraordinary Voting Matter or whether it gives rise to an Entrenched Right (as further described in

"Types of Voting Categories" below) and stating the Decision Period (as further described in "Decision Periods" below). If the STID Proposal is in relation to a Discretion Matter, HS1 must also provide a certificate evidencing this status. If the STID Proposal is in relation to an Entrenched Right, HS1 must include information as to the HS1 Secured Creditors and/or the Issuer Secured Creditors who are affected by such Entrenched Right.

The HS1 Security Trustee will, within five Business Days of receipt of a STID Proposal, send a request (the "**STID Voting Request**") in respect of any Ordinary Voting Matter, Extraordinary Voting Matter or Entrenched Right to each HS1 Secured Creditor (through its Secured Creditor Representative, which in respect of the Issuer shall be the Bond Trustee) and to each Secured Creditor Representative of the Issuer on behalf of the Issuer Secured Creditors. If the STID Proposal gives rise to an Entrenched Right, the STID Voting Request will contain a request that each relevant Affected HS1 Secured Creditor (including where the Issuer is an Affected HS1 Secured Creditor, each Issuer Secured Creditor who is affected) confirm on or before the last day of the Decision Period whether or not it wishes to consent to the relevant STID Proposals that would affect the Entrenched Right.

The Qualifying HS1 Secured Creditors (acting through their Secured Creditor Representatives) representing at least 10% of the Qualifying HS1 Senior Debt are able to challenge HS1's determination of the voting category of a STID Proposal. In addition, the HS1 Secured Creditors, through their respective Secured Creditor Representatives, are able to challenge HS1's determination as to whether there is an Entrenched Right, subject to such dissenting creditors providing supporting evidence or substantiation for their disagreement with such determination. Challenging creditors that comply with the foregoing requirements (the "**Dissenting Creditors**") may instruct the HS1 Security Trustee to inform HS1 in writing within five Business Days of receipt of the relevant STID Proposal that they disagree with HS1's determination and specifying, as applicable, the voting category they propose should apply or whose Entrenched Right is affected along with the required supporting evidence. HS1 and the relevant Qualifying HS1 Secured Creditors and/or relevant HS1 Secured Creditors will agree the voting category or whether there is an Entrenched Right within five Business Days from receipt by HS1 of the relevant notice from the HS1 Security Trustee. If they are unable to agree within this time, or if no agreement can be reached, then an appropriate expert will make a decision as to the voting category or whether there is an Entrenched Right which decision will be final and binding on each of the parties.

Types of Voting Categories

Ordinary Voting Matters

Ordinary Voting Matters include all matters which are not designated as Extraordinary Voting Matters or Discretion Matters (see "*Extraordinary Voting Matters*" and "*Discretion Matters*" below). If the Quorum Requirement is met (see "*Quorum Requirements*" below), a resolution in respect of an Ordinary Voting Matter may be passed by a simple majority of the Voted Qualifying Debt in accordance with the section entitled "*Qualifying HS1 Senior Debt*" below.

Extraordinary Voting Matters

The STID also describes the treatment of Extraordinary Voting Matters. If the Quorum Requirement for an Extraordinary Voting Matter is met (see "*Quorum Requirements*" below), the majority required to pass a resolution in respect of an Extraordinary Voting Matter will be at least 66.67% of the Voted Qualifying Debt in accordance with the section entitled "*Qualifying HS1 Senior Debt*" below.

Entrenched Rights

Entrenched Rights are rights that cannot be modified or waived in accordance with the STID without the consent of the Affected HS1 Secured Creditor(s). When the Affected HS1 Secured Creditor is the Issuer, consent must be obtained from each affected Issuer Secured Creditor.

Reserved Matters

Reserved Matters are matters which, subject to the STID and the CTA, an HS1 Secured Creditor is free to exercise in accordance with its own debt instrument including:

- (a) to receive any sums owing to it for its own account;
- (b) to make determinations of and require the making of payments due and payable to it;
- (c) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the terms of the CTA, the STID and the other Finance Documents;
- (d) to receive notices under the Finance Documents;
- (e) to assign its rights or transfer any of its rights and obligations under any PP Notes or any other Authorised Credit Facility to which it is a party subject to the provisions of the STID; and
- (f) in the case of each Hedge Counterparty, (i) to terminate the relevant Hedging Agreement or any transaction thereunder provided such termination is a Permitted Hedge Termination or to terminate the relevant Hedging Agreement or any transaction thereunder in part and amend the terms of the Hedging Agreement to reflect such partial termination or (ii) to exercise rights permitted to be exercised by it under a Hedging Agreement.

Discretion Matters

The HS1 Security Trustee may (but is not obliged to) make modifications to the Finance Documents without the consent of any other HS1 Secured Creditor where such modifications, consents or waivers:

- (a) in the opinion of the HS1 Security Trustee, are:
 - (i) to correct manifest errors or an error in respect of which an English court could reasonably be expected to make a rectification order; or
 - (ii) of a formal, minor, administrative or technical nature,
- (b) would not, in the opinion of the HS1 Security Trustee materially prejudice the interests of any of the Qualifying HS1 Secured Creditors (where "materially prejudicial" means that such modification, consent or waiver would have a material adverse effect on the ability of the Obligors to pay any amounts of principal or interest in respect of the Qualifying HS1 Senior Debt owed to the relevant Qualifying HS1 Secured Creditors on the relevant due date for payment therefor).

Quorum Requirements

Pursuant to the terms of the STID, the Quorum Requirement is:

- (a) in respect of an Ordinary Voting Matter, one or more Participating Qualifying HS1 Secured Creditors representing in aggregate at least 20% of the entire Outstanding Principal Amount of all Qualifying HS1 Senior Debt **provided that** if the Quorum Requirement has not been met within the Decision Period (as described further in " – *Decision Periods*" below), the Quorum Requirement shall be reduced to one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, 10% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt and the Decision Period shall be extended for a period of a further ten Business Days from the expiry of the initial Decision Period; and
- (b) in respect of an Extraordinary Voting Matter, one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, at least 20% of the entire Outstanding Principal Amount of all Qualifying HS1 Senior Debt **provided that** if the Quorum Requirement for an

Extraordinary Voting Matter is not met by the Business Day immediately preceding the last day of the Decision Period, the Decision Period will be extended and the Quorum Requirement will reduce to 10% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt and the Decision Period shall be extended for a period of a further ten Business Days from the expiry of the initial Decision Period.

Decision Periods

The STID includes provisions specifying the relevant decision periods within which votes must be cast (each a “**Decision Period**”) which period must not be less than:

- (a) five Business Days from the date of delivery of the STID Proposal for any Discretion Matter;
- (b) fifteen Business Days from the Decision Commencement Date for any Ordinary Voting Matter (which may be extended for a further period of ten Business Days if the quorum requirement for the relevant Ordinary Voting Matter has not been met within the initial Decision Period);
- (c) fifteen Business Days from the Decision Commencement Date for any Extraordinary Voting Matter (which may be extended for a further period of ten Business Days if the quorum requirement for the relevant Extraordinary Voting Matter has not been met within the initial Decision Period); and
- (d) fifteen Business Days from the Decision Commencement Date for an Entrenched Right. However, the Decision Period for an Entrenched Right for which the Issuer is the Affected HS1 Secured Creditor will not be less than 45 days.

“**Decision Commencement Date**” means the earlier of:

- (i) if the Qualifying HS1 Secured Creditors or, as the case may be, HS1 Secured Creditors (including, in the case of the Issuer, the Issuer Secured Creditors) are deemed to have agreed to the voting category proposed in the STID Proposal or, as applicable, as to whether the STID Proposal gives rise to any Entrenched Right affecting an HS1 Secured Creditor and/or, as applicable, Issuer Secured Creditor pursuant to the STID, the date which is five Business Days from the receipt of the relevant STID Proposal;
- (ii) the date on which the Dissenting Creditors and HS1 as the Security Group Agent reach agreement on the applicable voting category, or
- (iii) if the agreement or determination is such that the existing STID Proposal is incorrect, the date of receipt Security Group Agent of an appropriately amended STID Proposal from the HS1 Security Trustee

Modifications, consents and waivers will be passed by the requisite number of creditors as further described in “*Types of Voting Categories*” above.

Qualifying HS1 Senior Debt

General

Creditors to whom Qualifying HS1 Senior Debt is owed are entitled to vote the amount of such debt when consenting to proposals made by HS1 or instructing the HS1 Security Trustee to take action in accordance with the STID.

Subject to Entrenched Rights and Reserved Matters, only the relevant Qualifying HS1 Secured Creditors that are owed, or deemed to be owed, Qualifying HS1 Senior Debt may vote (through their Secured Creditor Representatives).

Qualifying HS1 Senior Debt

Qualifying HS1 Senior Debt is comprised of:

- (a) the principal amount outstanding under each IBLA corresponding to the Bonds;
- (b) the principal amount outstanding under the Authorised Credit Facilities (other than the Liquidity Facility Agreement, the PP Notes and the HS1 Hedging Agreements) at such time;
- (c) the principal amount outstanding under the PP Notes;
- (d) subject to the Entrenched Rights (i) in relation to any vote by the Qualifying HS1 Secured Creditors on whether to take Enforcement Action and (ii) following the taking of Enforcement Action, the principal amount outstanding under the IBLAs at such time corresponding to (A) in relation to any Hedging Transaction arising under a Pari Passu Issuer Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu Issuer Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu Issuer Hedging Agreement) and/or (B) otherwise, the mark-to-market value of any transaction or transactions arising under a Pari Passu Issuer Hedging Agreement to the extent that such value represents an amount which would be payable to the relevant Pari Passu Issuer Hedge Counterparty if an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) was designated at such time in respect of such transaction or transactions;
- (e) subject to the Entrenched Rights (i) in relation to any vote by the Qualifying HS1 Secured Creditors on whether to take Enforcement Action and (ii) following the taking of Enforcement Action, (A) in relation to any Hedging Transaction arising under a Pari Passu HS1 Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu HS1 Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu HS1 Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu HS1 Hedging Agreement) and/or (B) otherwise, the mark-to-market value of any transaction or transactions arising under any Pari Passu HS1 Hedging Agreement to the extent that such value represents an amount which would be payable to the relevant HS1 Hedge Counterparty if an Early Termination Date (as defined in the relevant Pari Passu HS1 Hedging Agreement) was designated at such time in respect of such transaction or transactions; and
- (f) the principal amounts outstanding under any other secured term loan facilities which are Authorised Credit Facilities at such time ranking *pari passu* with the above (but excluding for the avoidance of doubt any Liquidity Facilities, Super Senior HS1 Hedging Transactions or Super Senior Issuer Hedging Transactions).

Certification of amounts of Qualifying Senior HS1 Debt

Each Qualifying HS1 Secured Creditor (acting through its Secured Creditor Representative) must certify to the HS1 Security Trustee the relevant amount of the Qualifying HS1 Senior Debt that it is permitted to vote within five Business Days of the date on which either (i) the Qualifying HS1 Secured Creditors have been notified of a STID Proposal, an Enforcement Instruction Notice, a Further Enforcement Instruction Notice, a Qualifying HS1 Secured Creditor Instruction Notice or a Direction Notice or (ii) the HS1 Security Trustee requests such certification, the Outstanding Principal Amount of any debt which constitutes Qualifying HS1 Senior Debt held by such Qualifying HS1 Secured Creditor. If any Qualifying HS1 Secured Creditor fails to provide such certification through its Secured Creditor Representative within the time required, then the HS1 Security Trustee will notify HS1 of such failure. HS1 must promptly inform the HS1 Security Trustee of the Outstanding Principal Amount of Qualifying HS1 Senior Debt of such Qualifying HS1 Secured Creditor and such notification will be binding on the relevant Qualifying HS1 Secured Creditors except in the case of manifest error and without liability to HS1.

Tranching of Qualifying HS1 Senior Debt and Determination of Voted Qualifying Debt for which the Issuer is a Creditor

As described in the section "*Qualifying HS1 Senior Debt*" above, amounts owed to the Issuer by HS1 under the Initial IBLA are included in the Qualifying HS1 Senior Debt. However, the Issuer Secured Creditors, as opposed to the Issuer itself, are entitled to vote in respect of such amounts. When the Bond Trustee (as the Issuer's Secured Creditor Representative) casts its votes on the Issuer's behalf, it will do as instructed by the relevant Issuer Secured Creditors.

In the case of (a) and (e) of Qualifying HS1 Senior Debt (as described further in "*Qualifying HS1 Senior Debt*" above) the Issuer will be divided into separate voting tranches comprising respectively:

- (a) a tranche for the holders of each Tranche of Bonds equal to the aggregate Principal Amount Outstanding of each Tranche of Bonds; and
- (b) only (i) in relation to any vote by the Qualifying HS1 Secured Creditors on whether to take Enforcement Action, and (ii) following the taking of Enforcement Action (provided that, for the avoidance of doubt, Entrenched Rights will apply at all times), a tranche for each Pari Passu Issuer Hedge Counterparty equal to the principal amount outstanding under the Initial IBLA which corresponds to (A) in relation to any Hedging Transaction arising under a Pari Passu Issuer Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu Issuer Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu Issuer Hedging Agreement) and/or (B) otherwise, the mark-to-market value of any transaction or transactions arising under a Pari Passu Issuer Hedging Agreement (or the equivalent amount under any back-to-back hedging agreement) calculated by the Pari Passu Issuer Hedge Counterparty and notified in writing by the Pari Passu Issuer Hedge Counterparty to the HS1 Security Trustee to the extent that such value represents an amount which would be payable to the relevant Pari Passu Issuer Hedge Counterparty if an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) was designated on the date falling two Business Days after the commencement of the relevant Decision Period).

The votes of the Bondholders of each Tranche of Bonds in respect of a STID Proposal (other than a STID Proposal which relates to an Entrenched Right as to which the Issuer is an Affected HS1 Secured Creditor) will be cast by the Bondholders of such Tranche (through the Bond Trustee on their behalf), in respect of a Tranche of Bonds and a STID Proposal as follows:

- (a) subject to (c) below, in an amount equal to the aggregate of the Principal Amount Outstanding of each Bond which voted in favour of the relevant STID Proposal, for such STID Proposal both in respect of Quorum Requirements and the requisite majority;
- (b) subject to (c) below, in an amount equal to the aggregate of the Principal Amount Outstanding of each Bond which voted against the relevant STID Proposal, against such STID Proposal both in respect of Quorum Requirements and the requisite majority;
- (c) if any of the below applies to any Tranche of Bonds (a) and (b) above shall not apply for that Tranche of Bonds:
 - (i) if, in respect of a Tranche of Bonds and a STID Proposal:
 - (A) holders of 25% or more of the Principal Amount Outstanding of such Tranche of Bonds cast a vote in relation to such STID Proposal on or before the end of the relevant Decision Period; and
 - (B) holders of 75% or more of the Principal Amount Outstanding of the Bonds which so voted, voted the same way,

then the entire Principal Amount Outstanding of such Tranche of Bonds of such Tranche will count as having voted in such way both in respect of Quorum Requirements and the requisite majority; and

- (ii) in the event that (i)(A) does apply but (i)(B) does not apply, then the entire Outstanding Principal Amount of such Tranche of Bonds will count for the purposes of Quorum Requirements (but not the requisite majority, for which they will count on a pound for pound basis either for or against the STID Proposal according to their vote in accordance with (a) and (b) above).

Subject to the STID, voting in respect of the Pari Passu Issuer Hedging Transactions will be made by each Pari Passu Issuer Hedge Counterparty in respect of (A) in relation to any Hedging Transaction arising under a Pari Passu Issuer Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu Issuer Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu Issuer Hedging Agreement) and/or (B) otherwise, the mark to market value (being the amount which would be payable to the relevant Hedge Counterparty if any Early Termination Date (as defined in the relevant Hedging Agreement) calculated by the Pari Passu Issuer Hedge Counterparty and notified in writing by the Pari Passu Issuer Hedge Counterparty to the HS1 Security Trustee and as designated on the date falling two Business Days after the commencement of the relevant Decision Period) of all transactions arising under the Pari Passu Issuer Hedging Transactions to which it is a party. Only such mark to market value will be counted towards the Quorum Requirement. In respect of each Pari Passu Issuer Hedge Counterparty, a single vote by reference to the aggregate of the mark to market value of all such Pari Passu Issuer Hedging Transactions arising under the Issuer Hedging Agreements of such Pari Passu Issuer Hedge Counterparty will be counted for or against the applicable STID Proposal, Enforcement Instruction Notice, Further Enforcement Instruction Notice or Direction Notice.

Voting of Authorised Credit Facilities (other than PP Notes)

If in respect of any Authorised Credit Facility (other than the PP Notes) provided other than on a bilateral basis, the minimum quorum and voting majorities specified in the relevant Authorised Credit Facility are not met, votes in respect of the relevant Authorised Credit Facility will be divided between votes cast in favour and votes cast against, on a pound for pound basis in respect of the Qualifying HS1 Senior Debt then owed to Participating Qualifying HS1 Secured Creditors that vote on a proposed resolution within the Decision Period. Votes cast in favour and votes cast against will then be aggregated by the HS1 Security Trustee with the votes cast for and against by the other Qualifying HS1 Secured Creditors.

Voting of PP Notes

- (a) Subject to paragraphs (b) and (c) below, if in respect of PP Notes the minimum quorum specified in a relevant PP Note SCR Agreement is not met in respect of a vote on a particular STID proposal, no votes in respect of such PP Notes will be taken into account by the HS1 Security Trustee when determining whether the requisite majority for the particular STID Proposal or other matter has been satisfied pursuant to the relevant provisions of the STID and the principal amount outstanding in respect of such PP Notes shall not be taken into account for the purpose of assessing whether the particular Quorum Requirement is met.
- (b) If in respect of the Initial PP Notes the minimum quorum and voting majority specified in the Initial PP Note SCR Agreement in relation to an Extraordinary Voting Matter are not met, votes in respect of the Initial PP Notes will be divided between votes cast in favour and votes cast against, on a pound for pound basis in respect of Qualifying HS1 Senior Debt then owed to the Initial PP Notes who are Participating Qualifying HS1 Secured Creditors that vote on a proposed resolution within the Decision Period. Votes cast in favour and votes cast against will then be aggregated by the HS1 Security Trustee with the votes cast for and against by the other Qualifying HS1 Secured Creditors.

- (c) In respect of PP Notes other than the Initial PP Notes, the PP Note Secured Creditor Representative appointed in respect of the relevant PP Noteholders shall notify the HS1 Security Trustee at the time of its appointment if the provisions of the STID relating to voting of Authorised Credit Facilities (other than PP Notes) (as described further in “*Voting of Authorised Credit Facilities (other than PP Notes)*” above) or the provisions of the STID relating to Voting of PP Notes shall apply (and, if the provisions of the STID relating to Voting of PP Notes shall apply, whether paragraph (b) above should apply also) to votes in relation to STID Proposals in respect of such PP Notes. If the relevant PP Note Secured Creditor Representative notifies the HS1 Security Trustee that:
- (i) the provisions of the STID relating to voting of Authorised Credit Facilities shall apply, the relevant PP Notes shall be treated as an Authorised Credit Facility and votes counted in accordance with the provisions of the STID relating to voting of Authorised Credit Facilities (other than PP Notes);
 - (ii) paragraphs (a) and (b) above shall apply, the relevant PP Notes shall be treated in the same manner as the Initial PP Notes; or
 - (iii) paragraph (a) above only shall apply, the relevant PP Notes shall be treated in the same manner as the Initial PP Notes except that Extraordinary Voting Matters for such PP Notes shall be treated in the same manner as other votes of the relevant PP Noteholders in respect of such PP Notes under paragraph (a) above.

If the relevant PP Note Secured Creditor Representative does not notify the HS1 Security Trustee at the time of its appointment whether (i), (ii) or (iii) shall apply, it shall be deemed to have elected that (iii) shall apply.

Qualifying HS1 Secured Creditor Instructions

Qualifying HS1 Secured Creditors with at least 20% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt may instruct the HS1 Security Trustee (subject to providing the required indemnity pursuant to the STID) to exercise any of the rights granted to the HS1 Security Trustee under the Common Documents (save in respect of the taking of Enforcement Action or the delivery of a Loan Enforcement Notice or a Loan Acceleration Notice) including:

- (a) to challenge a statement(s), calculation(s) or ratio(s) in a Compliance Certificate and to call for other substantiating evidence of such statement(s), calculation(s) or ratio(s) and to approve the appointment of an independent expert specified by such Qualifying HS1 Secured Creditors to investigate the statement(s), calculation(s) or ratio(s) that is/are the subject of the challenge in the Compliance Certificate;
- (b) to request further information pursuant to and subject to the terms of the CTA in respect of, *inter alia*, Security Group covenants and Trigger Events; and
- (c) following delivery of a Loan Enforcement Notice but prior to delivery of a Loan Acceleration Notice to instruct the HS1 Security Trustee to send a Further Enforcement Instruction Notice.

Enforcement and Acceleration

Following a Loan Event of Default and for so long as it is continuing, the HS1 Security Trustee will request an instruction from the Qualifying HS1 Secured Creditors (through their Secured Creditor Representatives) as to whether the HS1 Security Trustee should deliver a Loan Enforcement Notice to enforce all or part of the HS1 Security or to take any other Enforcement Action and/or deliver a Loan Acceleration Notice to accelerate all of the obligations secured under the HS1 Security.

When voting on an Enforcement Instruction Notice:

- (a) the Quorum Requirement shall be one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, at least the “Relevant Percentage” of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt, where “Relevant Percentage” for the purposes of this sub-clause (a) means (i) 40 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered up to and including the date falling six month after the occurrence of the Loan Event of Default; (ii) 33.34 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered during the period following the date falling six month after the occurrence of the Loan Event of Default up to and including the date falling twelve months after the occurrence of the Loan Event of Default; or (iii) 10 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered at any time following the date falling twelve months after the occurrence of the Loan Event of Default;
- (b) the Decision Period will be fifteen Business Days from the date of delivery of the Enforcement Instruction Notice or Further Enforcement Instruction Notice; and
- (c) the majority required to pass the resolution shall be the Participating Qualifying HS1 Secured Creditors on a pound for pound basis representing at least the “Relevant Percentage” of the Outstanding Principal Amount of all Voted Qualifying Debt, where “Relevant Percentage” for purposes of this sub-clause (c) means (i) 66.67 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered up to and including the date falling six month after the occurrence of the Loan Event of Default; (ii) 50 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered during the period following the date falling six month after the occurrence of the Loan Event of Default up to and including the date falling twelve months after the occurrence of the Loan Event of Default; or (iii) 20 per cent. in respect of any Enforcement Instruction Notice or Further Enforcement Instruction Notice delivered at any time following the date falling twelve months after the occurrence of the Loan Event of Default.

HS1 Post-Enforcement Priority of Payments

After delivery to HS1 of a Loan Enforcement Notice, the whole of the HS1 Security will become enforceable. Subject to certain matters and to certain exceptions, following an enforcement, any Available Enforcement Proceeds or other monies held by the HS1 Security Trustee under the STID will be applied by the HS1 Security Trustee in accordance with the HS1 Post-Enforcement Priority of Payments waterfall. See "*Cashflows - HS1 Post-Enforcement Priority of Payments*" for a detailed description.

Permitted Enforcement – Liquidity Facility Agent and Super Senior Hedge Counterparties

Prior to the delivery of a Loan Enforcement Notice, if an Obligor has defaulted on any payment obligation under the Liquidity Facility Agreement or a Super Senior Hedging Agreement (subject to the lapse of any applicable notice or grace periods), the Liquidity Facility Agent or the Super Senior Hedge Counterparty (as applicable) shall be entitled, after 30 days from such non-payment and only until such time as the HS1 Security Trustee has given a Loan Enforcement Notice and/or Loan Acceleration Notice under the STID, to exercise any right against any Obligor to recover any amounts due and payable under the Liquidity Facility Agreement or the Super Senior Hedging Agreement (as applicable).

Distressed Disposals

On the occurrence of a distressed disposal the HS1 Security Trustee may, without any consent from any HS1 Secured Creditor, release any HS1 Security as is required to effect the disposal in accordance with the STID. The net proceeds of disposal are to be applied in accordance with priorities of payments (see the section "*Qualifying HS1 Secured Creditor Instructions – Enforcement and Acceleration*" above and "*Cashflows*" below).

Tax Deed of Covenant

Pursuant to a deed of covenant to be dated the Establishment Date between, *inter alios*, the HS1 Security Trustee, the Issuer Security Trustee, HS1, HSRF, Holdco and the Issuer (the “**Tax Deed of Covenant**”), each of the Tax Covenantors will make representations and give warranties and covenants with a view to protecting the Issuer and the other members of the Security Group from certain tax-related risks including risks relating to VAT grouping, secondary tax liabilities, group tax matters (including group relief, transfer pricing and the worldwide debt cap), degrouping charges, certain anti-avoidance provisions and the Issuer’s status as a securitisation company for the purposes of the Taxation of Securitisation Companies Regulations 2006, as amended.

The “**Tax Covenantors**” means, among others, Helix Topco.

The Tax Deed of Covenant will be governed by English law.

SUMMARY OF THE FINANCE DOCUMENTS

Initial IBLA

General

On or prior to the Initial Issue Date, the Issuer, HS1, the Issuer Security Trustee and the HS1 Security Trustee will enter into an Initial IBLA. The aggregate proceeds of the issuance by the Issuer of a Tranche of Bonds under the Programme on the Initial Issue Date will be on-lent to HS1 under such Initial IBLA. Each Advance under the Initial IBLA (or each Sub-Advance together making a single Advance) will correspond to the principal amount of each Tranche of Bonds issued on the Initial Issue Date such that the economic terms of each Advance match the economic terms of the corresponding Tranche of Bonds. Provided that any future issuances of Bonds are fungible with the issuance made on the Initial Issue Date, the Issuer will make available further facilities in an aggregate amount equal to the proceeds of each such issuance under the terms of the Initial IBLA. Otherwise, a new IBLA will be entered into for each new issuance by the Issuer of a Tranche of Bonds and the subsequent Advance (or Sub-Advances, as the case may be) to HS1, on substantially the same terms as the Initial IBLA. The making of each Advance will be subject to the satisfaction of the conditions precedent set out in the CP Agreement.

Matching of obligations

As each Advance is structured and tranching to match the tenor, interest rate and payment dates of each Tranche of Bonds, the Advances have characteristics that demonstrate capacity to produce funds to service any payments due and payable under each Tranche of the Bonds.

Advances

All Advances made or to be made by the Issuer under the Initial IBLA are or will be in amounts and at rates of interest (or such discount or indexed amount) corresponding to amounts and rates set out in the relevant Final Terms and will have interest periods which match the Interest Periods for the corresponding Tranche but will have interest payment dates one Business Day prior to each Interest Payment Date on the related Tranche. Interest on each Advance made under the Initial IBLA will accrue from the date of such Advance.

Unless otherwise repaid earlier, HS1 shall repay:

- (a) each outstanding Advance or Sub-Advance made to it in an amount equal to the relevant Instalment Amount;
- (b) any accrued but unpaid Ongoing Facility Fee; and
- (c) in the case of any Sub-Advance corresponding to an Index-Linked Bond, the amount equal to any amount of indexation payable in respect of the corresponding Bonds pursuant to Condition 7(b) (*Application of the Index Ratio*),

in each case on each Instalment Date of those Bonds.

Prepayments

If HS1 is required to prepay amounts outstanding under the Initial IBLA, it will prepay the relevant Advances or part thereof together with accrued interest, any prepayment fees and other break fees, costs and expenses and where applicable any make-whole amounts, then payable under the Initial IBLA and other relevant Transaction Documents to correspond to the amounts payable by the Issuer in respect of the corresponding early redemption of the corresponding Tranche of Bonds.

Under the Initial IBLA, the Issuer designates the HS1 Senior Debt evidenced by that IBLA as HS1 Defeased Debt. Where HS1 would otherwise be entitled to prepay all or part of any Advance or Sub-

Advance as set out in “*Summary of the Common Documents – Common Terms Agreement – HS1 Cash Management*” HS1 shall credit the amount which would otherwise be applied in such prepayment to the relevant HS1 Defeasance Account in accordance with the CTA.

Fees

In consideration for the Issuer agreeing to make the advances available under the Initial IBLA, HS1 will agree to pay to the Issuer the initial and ongoing facility fees set out in the Initial IBLA.

Prior to the Initial Issue Date, HS1 shall pay on behalf of the Issuer by way of the initial facility fee, any expenses of the Issuer reasonably incurred in connection with the initial issue of Bonds including, *inter alia*, the upfront fees and expenses of the Bond Trustee, the Issuer Security Trustee, the Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Dealers, the Liquidity Facility Providers, the Rating Agencies, the Issuer’s legal advisers, accountants and auditors and any amounts payable to the Issuer Hedge Counterparties.

After the Initial Issue Date HS1 will pay periodically a facility fee by way of the ongoing facility fee which shall meet the ongoing costs, losses and expenses of the Issuer in respect of amounts owed to, *inter alios*, the Bond Trustee, the Issuer Security Trustee (and any receiver appointed by the Issuer Security Trustee), the Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Liquidity Facility Providers, the Rating Agencies, the Issuer’s legal advisers, accountants and auditors and any amounts payable to the Issuer Hedge Counterparties (in each case to the extent not covered by the initial facility fee) and Liquidity Facility Providers.

Secured obligations

The obligations of HS1 under each IBLA will be secured pursuant to the HS1 Security Agreement, and such obligations will be guaranteed by each other Obligor in favour of the HS1 Security Trustee, who will hold the benefit of such security and guarantees on trust for the HS1 Secured Creditors (including the Issuer) on the terms of the STID.

Loan Event of Default

The Issuer’s obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from HS1 under the Initial IBLA and payments received under any related Hedging Agreements. Failure of HS1 to repay an Advance under the Initial IBLA on the maturity date in respect of such Advance (which corresponds to the Business Day falling three Business Days prior to the Scheduled Redemption Date or the Final Maturity Date, as applicable, of the corresponding Tranche) will be a Loan Event of Default under the Initial IBLA (as set out in the CTA), although it will not, of itself, constitute a Bond Event of Default. The Final Maturity Date under the Bonds corresponding to the relevant Advance may fall two years after the Scheduled Redemption Date, to cater solely for the possibility that HS1 might default on repayment of the Initial IBLA. In the event of such a Loan Event of Default, the Bonds will accrue interest at a floating rate, which will be met from any available proceeds from the Initial IBLA or, if insufficient, from drawings under the Liquidity Facility to the extent available. If the Bonds are not redeemed in full by their Final Maturity Date, there will be a Bond Event of Default.

Withholding/deductions

HS1 agrees to make all payments to the Issuer free and clear of any withholding on account of tax unless it is required by law to do so – in such circumstances HS1 will gross-up such payments.

Subsequent IBLAs

On or prior to any further Issue Date (excluding the Initial Issue Date) in which the Issuer issues Bonds, the proceeds of which are intended to be on-lent to HS1, which are not fungible with an existing series of Bonds, then a new IBLA will be entered into by the Issuer, HS1, the Issuer Security Trustee and the HS1 Security Trustee. Such new IBLA will be entered into substantially on the same terms as

set out above (each of these subsequent IBLAs along with the Initial IBLA will constitute the “**IBLAs**” and each an “**IBLA**”).

Governing law

Each IBLA will be governed by English law.

Initial Authorised Credit Facilities Agreement

HS1 and the Initial ACF Arrangers will enter into the Initial Authorised Credit Facilities Agreement on or about the Establishment Date. Credit facilities will be made available to HS1 by the Original Initial ACF Lenders which will comprise:

- (a) a senior term facility A of up to £230,000,000 and a senior term facility B of up to £85,000,000 (together the “**Senior Term Facilities**”) to fund the refinancing of the Existing Indebtedness, the payment of fees, costs, expenses, stamp, registration and other taxes incurred in connection with the refinancing and for the general corporate purposes of the Obligors. The Senior Term Facilities will only be available from the Initial Issue Date to and including the date 5 Business Days after the Initial Issue Date;
- (b) a WC Facility of up to £65,000,000 (capable of being reborrowed as contemplated by the Initial Authorised Credit Facilities Agreement) to fund general corporate and working capital purposes (but not towards payment of any amount in relation to the refinancing of the Existing Indebtedness or payment of any principal in respect of the Senior Term Facilities).

The facilities made available under the Initial Authorised Credit Facilities Agreement will mature on the date occurring (a) in the case of the senior term facility A, seven years after the date of the Initial Authorised Credit Facilities Agreement, (b) in the case of the senior term facility B, five years after the date of the Initial Authorised Credit Facilities Agreement and (c) in the case of the WC Facility, five years after the date of the Initial Authorised Credit Facilities Agreement.

The Obligors will make representations and warranties, covenants and undertakings to the Issuer and the Initial ACF Arrangers, the Original Initial ACF Lenders and the Initial ACF Agent on the terms set out in or otherwise permitted by the CTA. All utilisations on the Initial Issue Date under the Initial Authorised Credit Facility are subject to all representations in the CTA being true and in reference to the facts and circumstances then subsisting and, in relation to any subsequent utilisations, the Repeated Representations contained in the CTA being true and on the relevant utilisation date by reference to the facts and circumstances then subsisting.

In addition to the Trigger Events under the CTA which will also apply under the Initial Authorised Credit Facilities Agreement (see the section “*Summary of the Common Documents – Common Terms Agreement – General*”), the Original Initial ACF Lenders will benefit from an additional Level 2 Trigger Event. The consequences of a Level 2 Trigger Event shall occur in the event that the auditors formally qualify their report (rather than include in it matters of emphasis or other equivalent statements) on any audited Financial Statements provided by the Security Group:

- (a) in relation to going concern; or
- (b) in a manner which causes the calculation of the Financial Ratios to no longer reflect the true position of the Security Group and would, when recalculated using the value deemed by the auditors as the applicable value, result in a breach of the Trigger Event Ratios,

save where the qualification arises in relation to the relevant Obligor’s ability to refinance any Financial Indebtedness and/or to meet financial covenants.

Such additional Level 2 Trigger Event will be deemed to have been remedied where either:

- (a) a further set of audited financial statements is issued in respect of which the audit report is not qualified:
 - (i) in relation to a going concern; or
 - (ii) in a manner which causes the Financial Ratios to no longer reflect the true position of the Security Group and would, when recalculated using the value deemed by the auditors as the applicable value, not result in a breach of the Trigger Event Ratios; or
- (b) the original audit qualification is withdrawn.

The Loan Events of Default under the CTA will apply under the Initial Authorised Credit Facilities Agreement (see the section “*Summary of the Common Documents – Common Terms Agreement – General*”), provided that so long as the Initial Authorised Credit Facilities Agreement is outstanding the exercise of the Equity Cure Right shall be limited to three times during any five year period.

The ability of the Original Initial ACF Lenders to accelerate any sums owing to them under the Initial Authorised Credit Facilities Agreement upon or following the occurrence of a Loan Event of Default thereunder is subject to the STID. The occurrence of a Loan Event of Default is not a draw-stop under the WC Facility for Rollover Loans and any drawings under the WC Facility which are outstanding at the time of the occurrence of a Loan Event of Default will remain outstanding until the earlier of (a) repayment in full of such amounts, (b) the delivery of a Loan Acceleration Notice or (c) the termination date of the WC Facility which will be the date occurring five years after the date of the Initial Authorised Credit Facilities Agreement. However, no further drawings may be made under the Senior Term Facilities following the occurrence of a Loan Event of Default which is continuing.

Subject to the CTA and the STID, HS1 may, by giving not fewer than 3 Business Days’ prior notice to the Initial ACF Agent, prepay amounts outstanding under the Senior Term Facilities in a minimum amount of £2,000,000. HS1 must confirm to the Initial ACF Agent that it has sufficient funds on such payment date to effect such prepayment.

HS1 may additionally, by giving not fewer than 3 Business Days’ prior notice to the Initial ACF Agent, prepay amounts outstanding under the WC Facility Loan in a minimum amount of £1,000,000. HS1 must confirm to the Initial ACF Agent that it has sufficient funds on such payment date to effect such prepayment.

Upon the occurrence of a Change of Control or the sale of all or substantially all of the assets of the Security Group whether in a single transaction or a series of related transactions:

- (a) HS1 shall promptly notify the Initial ACF Agent upon becoming aware of that event and the Initial ACF Agent shall immediately thereafter notify the Lenders;
- (b) each Initial ACF Lender shall have a period of 30 Business Days (the “**Standstill Period**”) from the date on which HS1 notifies the Initial ACF Agent in accordance with paragraph (a) above during which time the Initial ACF Lender may notify the Initial ACF Agent that it wishes to cancel its Commitment and declare its participation in all outstanding Loans, together with accrued interest, and all other amounts accrued under the Finance Documents immediately due and payable, and the Initial ACF Agent shall immediately thereafter notify the Borrower of each such notification by an Initial ACF Lender;
- (c) during the Standstill Period, an Initial ACF Lender shall not be obliged to fund a Loan (except for a WC Facility Loan);
- (d) in respect of each Initial ACF Lender which notifies the Initial ACF Agent pursuant to paragraph (b) above, the Commitment of that Initial ACF Lender will be cancelled and all outstanding Loans, together with accrued interest, and all other amounts accrued under the Finance Documents, will become immediately due and payable 20 Business Days after the end of the Standstill Period.

HS1 will be required to ensure that the aggregate amount of all the WC Facility Loans less any amount of cash or Cash Equivalent Investments of the Borrower and any other Obligors shall be reduced to zero for a period of not less than 5 successive business days in each 12 month period following the Initial Issue Date and not fewer than three months from the preceding clean down.

Initial PP Notes

On 29 October 2012, HSRF, HS1 and Holdco entered into the Initial PP Note Purchase Agreement with the Initial PP Noteholders, pursuant to which HSRF sold the Initial PP Notes to the Initial PP Noteholders. HSRF on-lent the proceeds of the sale of the Initial PP Notes (the “**Initial PP Note Proceeds**”) to HS1 under a note issuer borrower loan agreement (the “**Initial PPNIBLA**”) dated 29 October 2012 (with tenor, interest rates and payment dates matching the Initial PP Notes) and HS1 used the Initial PP Note Proceeds to fund the refinancing existing indebtedness, the payment of fees, costs, expenses, stamp, registration and other taxes incurred in connection with the refinancing and for the general corporate purposes of the Obligors.

The Initial PP Notes are subject to the terms and conditions of the Initial PP Note Purchase Agreement and are registered notes.

Maturity, Repayment and Interest

The Series A Notes are denominated in USD. The Series A1 Notes have a total principal amount of U.S.\$530,000,000 and the Series A2 Notes have a total principal amount of U.S.\$20,000,000. The Series A Notes bear interest at 3.79% per annum, payable semi-annually in arrear on 30 March and 30 September in each year. The principal of the Series A Notes is repayable according to an amortisation schedule, which amortises the Series A Notes from 30 September 2021 to their final maturity date on 30 March 2028.

The Series A2 Notes are listed on the Channel Islands Stock Exchange.

The Series B Notes are denominated in GBP. The Series B1 Notes have a total principal amount of £70,000,000 and the Series B2 Notes have a total principal amount of £47,000,000. The Series B Notes bear interest at 4.21% per annum, payable semi-annually in arrear on 30 March and 30 September in each year. The principal of the Series B Notes is repayable according to an amortisation schedule, which amortises the Series B Notes from 30 September 2027 to their final maturity date on 30 March 2031.

The Series B2 Notes are listed on the Channel Islands Stock Exchange.

The Series C Notes are denominated in GBP with a total principal amount of £58,000,000. The Series C Notes bear interest at a floating rate that is the percentage per annum equal to six month LIBOR plus 1.64%, payable semi-annually in arrear on 30 March and 30 September in each year. The principal of the Series C Notes is repayable according to an amortisation schedule, which amortises the Series C Notes from 30 September 2027 to their final maturity date on 30 March 2031.

The Series D Notes are denominated in GBP with a total principal amount of £50,000,000. The Series D Notes bear interest at 4.72% per annum, payable semi-annually in arrear on 30 March and 30 September in each year. The principal of the Series D Notes is repayable according to an amortisation schedule, which amortises the Series D Notes from 30 September 2028 to their final maturity date on 30 March 2036.

If on the Initial Issue Date the Bonds do not have a rating of at least A-, or, in the case of Moody's, A3, (or equivalent from a Rating Agency other than S&P, Moody's or Fitch) from at least two Rating Agencies, then the interest due on each Initial PP Note shall be increased by 0.25%.

Initial PP Notes subject to the CTA, the STID and the MDA

The Initial PP Notes and the Initial PP Note Purchase Agreement will be subject to the CTA and the STID, and incorporate the defined terms in the Master Definitions Agreement, from the Initial Issue Date. The Obligors will make the representations and warranties, covenants and undertakings to the Initial PP Noteholders on the terms set out in the CTA. The “Events of Default” under the Initial PP Note Purchase Agreement are the Loan Events of Default under the CTA and the ability of the Initial PP Noteholders to accelerate any sums owing to them under the Initial PP Notes or the Initial PP Note Purchase Agreement upon or following the occurrence of a Loan Event of Default is subject to the STID.

Prepayment

HSRF may, at its option, prepay the Initial PP Notes in full or in part (subject to a minimum prepayment amount of 1% of the outstanding principal) on giving the Initial PP Noteholders at least 30 days’ and not more than 60 days’, notice. Voluntary prepayments include accrued interest plus a “Make-Whole Amount”, which is an amount to compensate Initial PP Noteholders for loss of return on the prepaid principal, based on their expected return less a notional reinvestment yield (with a modified calculation based on the same principles for Initial PP Notes that are subject to cross currency hedging arrangements by an Initial PP Noteholder). Partial voluntary prepayments must be allocated among Initial PP Notes in the series that is being prepaid *pro rata* according to the principal outstanding in respect of that series.

Where, as a result in a change in tax law or regulation (either in the United Kingdom or in another jurisdiction that becomes a jurisdiction that levies tax on the Initial PP Notes after the issue of the Initial PP Notes) that has occurred since 29 October 2012 (i) an Obligor is required to gross up payments or pay any additional amount to an Initial PP Noteholder (ii) HS1 is required to make any deduction or withholding in respect of payments to HSRF under the Initial PPNIBLA or (iii) HSRF ceases to be a “securitisation company” for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) and is otherwise unable to claim favourable treatment under those Regulations, HSRF may prepay any affected Initial PP Notes on giving the Initial PP Noteholders at least 30 days’, and not more than 60 days’, notice. Prepayments made for tax reasons include accrued interest and a “Modified Make-Whole Amount”, which is calculated in the same manner as the “Make-Whole Amount” payable in respect of voluntary prepayments but with a higher notional reinvestment yield being deducted from the expected return. An affected Initial PP Noteholder can reject prepayment in circumstances described in (i) above, in which case any rights to gross up or additional payments in respect of those circumstances are waived for the relevant Initial PP Notes. HSRF can take mitigating action, rather than make a prepayment, with which the Initial PP Noteholders must cooperate to the extent commercially reasonable.

Where there is: (i) an Initial PP Note Purchase Agreement Change of Control; or (ii) a sale of all or substantially all of the assets of the Group; which in either case results in a ratings downgrade of a credit rating ascribed to the Bonds (or the Initial PP Notes, where they are subject to a credit rating) by any one Rating Agency to below investment grade within 60 days of the Initial PP Note Purchase Agreement Change of Control or asset sale taking effect, each Initial PP Noteholder may opt to have its Initial PP Notes prepaid. Prepayments made owing to a change of control include accrued interest (but no “Make-Whole Amount” or “Modified Make-Whole Amount”).

HSRF must offer to prepay any Initial PP Notes where Holdco or affiliated entities are in violation of a sanctions programme (an “**OFAC Sanctions Programme**”) of the Office of Foreign Assets Control of the U.S. Department of Treasury (“**OFAC**”) and the Initial PP Noteholder in respect of such Initial PP Notes would be in breach of any laws or regulations applicable to it by virtue of holding those Initial PP Notes.

Where a prepayment is made in respect of Initial PP Notes that are subject to cross currency hedging arrangements by an Initial PP Noteholder, each such Initial PP Noteholder is entitled to be reimbursed for hedging breakage losses, and any amount due to each such Initial PP Noteholder is reduced by any hedging breakage gains, arising from the prepayment.

Additional covenants

In addition to the covenants and undertakings set out in the CTA, the Obligors also covenant that:

- (a) Holdco will not permit any affiliated entity to become a person, or engage with any person who is, on the list of Specially Designated Nationals and Blocked Persons published by OFAC, where that would lead to a violation of an OFAC Sanctions Programme, without prepayment as described above;
- (b) HSRF will use its reasonable endeavours to procure a credit rating for the Initial PP Notes where there is no credit rating for HS1's senior debt or the credit rating ascribed to the Bonds is not recognised by the U.S. Securities Valuation Office; and
- (c) HSRF will maintain a listing for the Series A2 Notes and the Series B2 Notes on the Channel Islands Stock Exchange or another recognised stock exchange.

Governing law

The Initial PP Note Purchase Agreement and the Initial PP Notes are governed by English law.

HS1 Security Agreement

Security

Pursuant to the HS1 Security Agreement between HS1, HSRF, Holdco and the HS1 Security Trustee, the obligations set forth thereunder become effective on the Initial Issue Date. Under the HS1 Security Agreement Holdco, HSRF and HS1 will guarantee the obligations of each other Obligor under the Finance Documents and each of HS1, HSRF and Holdco grant a security interest over all of their assets (subject to certain limited exceptions).

Subject to certain acknowledged prior ranking security interests, the security constituted by the HS1 Security Agreement is expressed to include, amongst other things:

- (a) first fixed charges over:
 - (i) the shares in HS1 and HSRF including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;
 - (ii) HS1's, HSRF's and Holdco's right, title and interest from time to time in and to certain land and other real property and the proceeds of any disposal thereof;
 - (iii) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;
 - (iv) all monies standing to the credit of the Obligors' bank accounts;
 - (v) all Intellectual Property Rights owned by HS1, HSRF and Holdco;
 - (vi) uncalled capital and goodwill;
 - (vii) each Cash Equivalent Investment;
 - (viii) all present and future book debts;
 - (ix) all benefit in respect of its insurances;
- (b) an assignment of HS1's, HSRF's and Holdco's right in respect of the Hedging Agreements and each IBLA and other designated material contracts; and

(c) a first floating charge of the whole of the undertaking of HS1, HSRF and Holdco.

Any entity acquired or established by HS1 at any time following the Establishment Date which becomes a New Obligor under the STID will be required to accede to the HS1 Security Agreement as an Obligor and provide supplementary security and a guarantee of HS1's obligations under the Finance Documents.

The HS1 Security Trustee holds the benefit of the HS1 Security Agreement on trust for the Receiver and the HS1 Secured Creditors in accordance with and subject to the terms of the STID.

The HS1 Security Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

Additional Authorised Credit Facilities

HS1 will be permitted to incur Financial Indebtedness under Authorised Credit Facilities with an Authorised Credit Provider subject to any applicable financial covenants and the terms of the CTA and the STID. Each Authorised Credit Provider will be party to the CTA and the STID.

Account Bank Agreement

General

HS1 will establish or cause to be established a debt service reserve account and one or more operating accounts, hedge collateral accounts, liquidity standby accounts and defeasance accounts (together with any other accounts that may be opened by HS1 from time to time, the "**HS1 Accounts**"). HSRF will establish or cause to be established a debt service reserve account and one or more operating accounts, liquidity standby accounts and defeasance accounts (together with any other accounts that may be opened by HSRF from time to time, the "**HSRF Accounts**"). The Issuer will establish or cause to be established a debt service reserve account, one or more transaction accounts, hedge collateral accounts and liquidity standby accounts (together with any other accounts that may be opened by the Issuer from time to time, the "**Issuer Accounts**"). The HS1 Accounts, the HSRF Accounts and the Issuer Accounts will be held with the Account Bank pursuant to the Account Bank Agreement dated on or about the Establishment Date between HS1, HSRF, the Issuer, the Account Bank, the Liquidity Facility Agent, the HS1 Security Trustee and the Issuer Security Trustee. A Liquidity Standby Account opened under the Liquidity Facility Agreement may be opened and maintained with the Account Bank under the Account Bank Agreement and any such account will be operated by the Liquidity Facility Agent.

The Royal Bank of Scotland plc, acting through its London corporate service centre currently serves as the Account Bank pursuant to the Account Bank Agreement.

"**Liquidity Standby Account**" means a reserve account to be opened, if required, in the name of HS1, HSRF or the Issuer, as the case may be and held at the applicable Liquidity Facility Provider in respect of whom the Standby Drawing has been made, or if such Liquidity Facility Provider does not have the Requisite Rating, at the Account Bank.

"**Requisite Ratings**" means as of any date (i) in respect of the Liquidity Facility, in respect of any person, such person's long term unsecured debt obligations being rated at least "BBB" or its equivalent by the Rating Agency which the Issuer has engaged to provide a rating of the Bonds at such time and (ii) in respect of all other Finance Documents, and each counterparty thereto which is required by the Rating Agencies to maintain a minimum short-term or long-term credit rating, the minimum short-term or long-term credit rating specified by each Rating Agency for such counterparty as of such date in order to support the then applicable ratings of the Bonds pursuant to the then applicable ratings criteria.

Termination

The Account Bank may resign its appointment upon not less than 120 days' notice to HS1 (for itself and on behalf of the Obligors) and the Issuer (copied to the HS1 Security Trustee and the Issuer

Security Trustee) provided that such resignation shall not take effect until a substitute Account Bank with the Requisite Rating has been duly appointed.

HS1, HSRF and the Issuer may jointly revoke their appointment of the Account Bank by not less than 30 days' notice to the Account Bank provided that such revocation shall not take effect until a substitute has been duly appointed. Furthermore the appointment of the Account Bank will terminate automatically if, *inter alia*, (a) the Account Bank becomes incapable of acting as an Account Bank (b) an Insolvency Event occurs in relation to the Account Bank, (b) the Account Bank no longer maintains the Requisite Rating with either of the Rating Agencies and (c) if the Account Bank defaults in the performance of any of its material obligations under the Account Bank Agreement subject to the applicable grace period.

SUMMARY OF THE CREDIT AND LIQUIDITY SUPPORT DOCUMENTS

Initial Liquidity Facility Agreement

The Liquidity Facility to be provided by the Initial Liquidity Facility Providers pursuant to the Initial Liquidity Facility Agreement will be the only Liquidity Facility in place as at the Initial Issue Date. HS1, the Issuer and HSRF (together the “**LF Borrowers**”) may enter into further or replacement Liquidity Facilities in connection with the Authorised Credit Facilities to be entered into from time to time.

Under the terms of the Initial Liquidity Facility Agreement, the Initial Liquidity Facility Providers will grant a 364 day committed sterling revolving credit facility (which may be renewed) in aggregate amount specified in the Initial Liquidity Facility Agreement for the purpose of covering certain shortfalls in the ability of the LF Borrowers to service amounts payable in respect of the Bonds, the Senior Term Facilities, the PP Notes and certain other payments due to the HS1 Secured Creditors and Issuer Secured Creditors, including amounts due under certain hedging agreements.

Each Initial Liquidity Facility Provider must be a reputable and experienced financial institution which, at the Initial Issue Date, has the Requisite Rating. Each Liquidity Facility Provider will be an HS1 Secured Creditor, an Issuer Secured Creditor and a party to the STID, the Common Terms Agreement and the Master Definitions Agreement.

Under the Initial Liquidity Facility Agreement, the Liquidity Facility will not be available to be drawn down if an LF Event of Default has occurred and is continuing. Following an LF Event of Default, the Initial Liquidity Facility Agent may, by notice in writing to the affected Borrower, the HS1 Security Trustee, the Issuer Security Trustee and the Bond Trustee, declare all outstanding drawings immediately due and payable and/or cancel the commitments of each Initial Liquidity Facility Provider.

The Initial Liquidity Facility Agreement will provide that if (i) at any time the rating of the short term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Liquidity Facility Provider falls below the Requisite Rating or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under the Liquidity Facility prior to the expiry of the relevant availability period, the Borrowers will:

- (a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a Successor Liquidity Facility Provider, a Substitute Liquidity Facility Provider or, in the case of (i) above only, a guarantor of such Liquidity Facility Provider with the Requisite Rating; and
- (b) (if a replacement is not made within the relevant time period specified in the Initial Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the relevant Liquidity Standby Account the full amount of the relevant Liquidity Facility Provider’s undrawn commitment (a “**Standby Drawing**”).

If the Standby Drawing results from a Liquidity Facility Provider falling below the Requisite Rating, the Borrowers shall repay the Standby Drawing if: (i) the relevant Facility Provider which has been downgraded is re-rated with the Requisite Rating; (ii) the Borrowers serve a notice of cancellation; (iii) the affected Liquidity Facility Provider assigns or transfers its rights, benefits or obligations under the Initial Liquidity Facility Agreement; (iv) within 5 Business Days of the date on which the Liquidity Facility Agent has served a notice on the Borrowers, the Cash Manager and the HS1 Security Trustee and the Issuer Security Trustee indicating that the Liquidity Facility Provider has been re-rated with the Requisite Rating, or (v) all Ratings Agencies then rating the Bonds or any Tranche of Bonds confirm to the HS1 Security Trustee and the Issuer Security Trustee that such repayment would not lead to the ratings ascribed to any Tranche of Bonds being downgraded below the then current ratings of such Tranche of Bonds.

If the Standby Drawing results from a Liquidity Facility Provider not agreeing to renew its commitment, the Borrowers shall repay the Standby Drawing if: (i) a Successor Liquidity Facility Provider accedes to the Initial Liquidity Facility Agreement in accordance with conditions set out therein; (ii) the Borrowers enter into a replacement liquidity facility on terms acceptable to the HS1 Security Trustee, the Issuer Security Trustee and the Rating Agencies; (iii) the Borrowers serve a notice of cancellation to the affected Liquidity Facility Provider; or (iv) all the Rating Agencies then rating the Bonds or any Tranche of Bonds confirm to the HS1 Security Trustee and the Issuer Security Trustee that such repayment would not lead to the ratings ascribed to any Tranche of Bonds being downgraded below the then current ratings of such Tranche of Bonds.

The Initial Liquidity Facility Agreement and all non-contractual obligations arising out of or in connection with it will be governed by English law.

Initial HS1 Hedging Agreements

The Obligors may enter into various interest rate, inflation-linked and currency swap transactions with the HS1 Hedge Counterparties in conformity with the Hedging Policy (see “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy*”).

Issuer Hedging Agreements

The Issuer may enter into various interest rate, inflation-linked and currency swap transactions with the Issuer Hedge Counterparties in conformity with the Hedging Policy (see “*Summary of the Common Documents – Common Terms Agreement – Hedging Policy*”). The Issuer will not enter into any Issuer Hedging Agreements on or before the Initial Issue Date.

SUMMARY OF THE ISSUER TRANSACTION DOCUMENTS

Bond Trust Deed

General

On or before the Establishment Date, the Issuer and the Bond Trustee will enter into the Bond Trust Deed pursuant to which the Bonds will be constituted. The Bond Trust Deed will include the form of the Bonds and contain a covenant from the Issuer to the Bonds Trustee to pay all amounts due under the Bonds. The Bond Trustee will hold the benefit of that covenant on trust for itself and the Bondholders in accordance with their respective interests.

Enforcement

Notwithstanding the provisions of any other Issuer Transaction Document, the Issuer Security shall only become enforceable upon the delivery of a Bond Enforcement Notice in accordance with the Issuer Deed of Charge. Only the Bond Trustee may enforce the provisions of the Bonds or the Bond Trust Deed and no Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Bond Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

Waiver of a Bond Event of Default

The Bond Trustee may, without the consent or sanction of the Bondholders or any other Issuer Secured Creditor at any time (but only if and so far as in its opinion the interests of the Bondholders shall not be materially prejudiced thereby (where “materially prejudiced” means that such waiver would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor)) determine that any event which would otherwise constitute a Bond Event of Default or Potential Bond Event of Default shall not be treated as such for the purposes of the Bond Trust Deed provided that the Bond Trustee shall not exercise such powers in contravention of any express direction given by Extraordinary Resolution of the Bondholders or of a request in writing made by holders of not less than 25% in aggregate of the principal amount of the Bonds then outstanding, but no such direction or request shall affect any waiver or authorisation previously given or made or so as to authorise or waive any such proposed breach or breach relating to any Basic Terms Modification.

Modification

The Bond Trustee may without the consent or sanction of the Bondholders and without the consent of the other Issuer Secured Creditors (other than any Issuer Secured Creditor which is party to the relevant documents), at any time and from time to time concur with the Issuer and any other person, or direct the Issuer Security Trustee to concur with the Issuer or any other person, in making any modification to:

- (a) the Bond Trust Deed, the Conditions, the Bonds, the Receipts, the Coupons and/or the other Issuer Transaction Documents (other than a Basic Terms Modification or any modification to the Dealership Agreement or any Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other document to which it is party or in respect of which it holds security provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Bondholders (where “materially prejudicial” means that such modification would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor) and provided further that if any such modification relates to a Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent or, where any Bondholders are affected Issuer Secured Creditors, the holders of each Tranche of Bonds affected thereby have sanctioned such modification in accordance with Schedule 5 to the Bond Trust Deed; or

- (b) the Bond Trust Deed, the Conditions, the Bonds, the Receipts, the Coupons or the other the Issuer Transaction Documents (other than the Dealership Agreement and each Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other documents to which it is a party or in respect of which it holds security which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature, to correct a manifest error or an error in respect of which an English court would reasonably be expected to make a rectification order.

The Bond Trust Deed provides that in connection with the exercise by it of any of its trusts, powers, authorities or discretions under the Bond Trust Deed (including, without limitation, any modification, waiver, authorisation, determination or substitution) or any other Issuer Transaction Document the Bond Trustee shall have regard to the general interests of the Bondholders.

The Bond Trustee will be authorised by each Bondholder, to execute and deliver on its behalf all documentation required to implement, or direct the Issuer Security Trustee to implement any modifications, waivers or consents which have been granted by the Bond Trustee in respect of the Bond Trust Deed, the Conditions, the Bonds, the Receipts, the Coupons and/or any Issuer Transaction Document or any Common Document ((other than a Basic Terms Modification or any modification to the Dealership Agreement or any Subscription Agreement) subject as provided in the STID in relation to any Common Document) and such execution and delivery shall bind each Bondholder as if such documentation had been duly executed by it.

Action, proceedings and indemnification

The Bond Trustee shall not be bound to take any actions, proceedings, or steps in relation to the Bond Trust Deed, the Bonds or any other Issuer Transaction Document (other than the Dealership Agreement or any Subscription Agreement) unless directed or requested to do so in writing by the Issuer Qualifying Creditors together holding or representing 25% or more of the Issuer Qualifying Debt, and then only if it shall be indemnified and/or secured and /or prefunded to its satisfaction against any liabilities relating to such actions.

Only the Bond Trustee may enforce the provisions of the Bond Trust Deed or the other Issuer Transaction Documents to which it is party.

Provisions for Voting

In respect of any STID Proposal other than an Entrenched Right STID Proposal (defined below).

Each Bondholder may only vote on such STID Proposal by way of Block Voting Instruction and each Bondholder shall have one vote in respect of each £1 (or its equivalent expressed in sterling on the basis of the Exchange Rate) of Outstanding Principal Amount of Bonds held or represented by it.

Each Bondholder must vote on or prior to the time specified in order to enable the Principal Paying Agent or, as the case may be, a Paying Agent or the Registrar to issue a Block Voting Instruction on the Voting Date, provided that if a Bondholder does not vote in sufficient time for a Block Voting Instruction to be issued in respect of its Bonds prior to the end of the Voting Period, the Votes of such Bondholder may not be counted.

In respect of such STID Proposal, the Bond Trustee shall vote as the Secured Creditor Representative of the Bondholders in respect of each Tranche of Bonds then outstanding by notifying the HS1 Security Trustee, the Issuer and the Issuer Security Trustee, in accordance with the STID promptly following the receipt by it of such Votes, of each Vote comprised in a Block Voting Instruction received by it from a Paying Agent or the Registrar on or prior to the Voting Date (or, if earlier the relevant Voting Closure Date).

In respect of (a) a STID Proposal that gives rise to an Entrenched Right in respect of which the Issuer is an Affected HS1 Secured Creditor (an “**Entrenched Right STID Proposal**”); and (b) any Voting Matter which is not a STID Proposal:

- the Issuer or the Bond Trustee may at any time, and the Bond Trustee must if (a) it receives an Entrenched Right STID Proposal; or (b) directed to do so by Bondholders representing not less than 10% of the Principal Amount Outstanding of the Bonds, request that such Voting Matter be considered by the Bondholders. The Bond Trustee shall send a notice (a “**Voting Notice**”) to the Bondholders of each affected Tranche of Bonds, specifying the Voting Date (which shall initially be set with at least 21 days’ notice) and Voting Matter(s) including the terms of any resolution to be proposed;
- each Bondholder shall have one vote in respect of each £1 (or its equivalent expressed in Sterling on the basis of the Exchange Rate) of Principal Amount Outstanding of the Bonds held or represented by it;
- each Bondholder must vote prior to the close of business (London time) 24 hours prior to the Voting Date so that his votes can be included in a Block Voting Instruction which needs to be deposited at least 24 hours before the Voting Date;
- the initial quorum requirement for an Ordinary Resolution is one or more Bondholders representing 25 per cent. or more of the aggregate Principal Amount Outstanding of the Bonds who for the time being are entitled to receive notice of such Voting Matter;
- the initial quorum requirement for an Extraordinary Resolution (subject as provided below), is one or more Bondholders representing 50 per cent. or more of the aggregate Principal Amount Outstanding of the Bonds for the time being outstanding, who for the time being are entitled to receive notice of such Voting Matter, **except that** in respect of any Voting Matter comprising any of the matters specified to be a Basic Terms Modification (which shall only be capable of being effected after having been approved by an Extraordinary Resolution) the initial quorum requirement is one or more Bondholders representing 75 per cent. or more of the aggregate Principal Amount Outstanding of Bonds for the time being outstanding, who, for the time being are entitled to receive notice of such Voting Matter;
- if the relevant Extraordinary Quorum Requirements are not satisfied on a Voting Date, then such Voting Date shall be postponed to the same day in the next week (or if such day is a public holiday the next succeeding business day) (an “**Adjourned Voting Date**”) except where an Extraordinary Resolution is to be proposed in which case the Adjourned Voting Date shall be a day (being a business day) during the period, being not less than 7 clear days nor more than 14 clear days, subsequent to such Voting Date, and approved by the Bond Trustee. On any Adjourned Voting Date, one or more Votes shall (subject as provided below) form a quorum and shall have the power to pass any Extraordinary Resolution or Ordinary Resolution and to decide upon all matters which could properly have been dealt with through the original Vote had the requisite Extraordinary Quorum Requirements been met, **provided that** on any Adjourned Voting Date the Extraordinary Quorum Requirements for the transaction of business comprising any of the matters specified to be a Basic Terms Modification shall be at least 25 per cent. of the aggregate Principal Amount Outstanding of the Bonds for the time being outstanding, who for the time being are entitled to receive notice of such Voting Matter; and
- notice of any Adjourned Voting Date at which an Extraordinary Resolution is to be voted upon shall be given in the same manner as a Voting Notice but the minimum notice period is only 5 days as opposed to 21. Subject as aforesaid it shall not be necessary to give any notice of an Adjourned Voting Date.

Subject to all other provisions of the Bond Trust Deed, the Bond Trustee may, without the consent of the Issuer or the Bondholders, prescribe such further regulations regarding voting by the Bondholders in respect of such Voting Matters (but, not for the avoidance of doubt, in respect of any STID Proposal other than an Entrenched Right STID Proposal) as the Bond Trustee may in its sole discretion think fit, including the calling of one or more meetings of Bondholders (or any Tranche thereof) in order to approve any resolution to be put to the Bondholders (or any Tranche thereof) where the Bond Trustee, in its sole discretion, considers it to be appropriate to hold a meeting.

Issuer representations

The Issuer will make representations (subject to detailed carve-outs, exceptions and qualifications set forth in the Bond Trust Deed) in the Bond Trust Deed as at the date of the Bond Trust Deed and at each Issue Date, including as to:

- (a) its corporate status, power and authority and certain other legal matters;
- (b) the enforceability of the Transaction Documents;
- (c) the legal validity of the Bonds;
- (d) non-conflict with the documents binding on it, its constitutional documents, licences and laws;
- (e) no existing default or potential default;
- (f) consents, licences, authorisations and approvals are obtained and complied with;
- (g) no current litigation;
- (h) no Security Interest on any of its present or future revenues or assets other than pursuant to the Issuer Deed of Charge;
- (i) no winding up or insolvency event in relation to it; and
- (j) status of security.

Issuer covenants

The covenants given by the Issuer in the Bond Trust Deed (subject to detailed carve-outs, exceptions and qualifications) include the following:

- (a) maintain at all times at least one independent director who is not otherwise affiliated with the Holdco Group or the Sponsors;
- (b) conduct its business in accordance with its obligations under the Bond Trust Deed;
- (c) so far as permitted by applicable law and subject to any binding confidentiality restrictions give the Bond Trustee such documents needed to discharge or exercise its powers under the Bond Trust Deed or by operation of law;
- (d) ensure compliance with accounting requirements as set forth by the relevant Stock Exchange;
- (e) keep proper books of account and allow the Bond Trustee free access to such books of account;
- (f) at all times maintain separate books, records and accounts;
- (g) not commingle its assets with the assets of any other entities;
- (h) use its own stationery, invoice and cheques;
- (i) not grant, create or permit to subsist any Security Interests (unless by operation of law) over its assets other than pursuant to the Issuer Deed of Charge;
- (j) not to have any Subsidiaries or any employees or premises;
- (k) not to acquire any leasehold, freehold or heritable property;

- (l) not dispose of assets save as permitted by the Issuer Transaction Documents;
- (m) not merge or legally consolidate save as permitted by the Issuer Transaction Documents;
- (n) not to incur any financial indebtedness save as permitted by the Issuer Transaction Documents;
- (o) not to pay any dividend or make any distributions to its shareholders save as permitted by the Issuer Transaction Documents;
- (p) subject to the Reservations not to permit any of the Issuer Transaction Documents to become invalid and not to vary or waive any term save as permitted by the Issuer Transaction Documents;
- (q) send to the Bond Trustee every document issued or sent to its shareholders;
- (r) execute and perform such acts necessary in order for the Bond Trustee to discharge its functions under the Bond Trust Deed;
- (s) procure the Principal Paying Agent and the Registrar notify the Bond Trustee in the event they do not receive payment of the full amount due on all Bonds, Receipts or Coupons;
- (t) if the relevant Final Terms indicate that the Bonds are to be listed on a relevant Stock Exchange, maintain the quotation or listing on the relevant Stock Exchange of those of the Bonds;
- (u) send to the Bond Trustee and obtain its approval, prior to the date on which any such notice is to be given, the form of every notice to be given to the Bondholders;
- (v) notify the Bond Trustee if payments by the Issuer become subject to withholding;
- (w) deliver to the Bond Trustee a certificate setting out the total number and aggregate nominal amount of the Bonds which:
 - (i) up to and including the date of such certificate have been purchased by the Issuer or any Obligor and cancelled; and
 - (ii) are at the date of such certificate held by, for the benefit of, or on behalf of, the Issuer or any Obligor;
- (x) give notice to the Bond Trustee of the proposed redemption of the Bonds;
- (y) minimise taxes and any other costs arising in connection with its payment obligations in respect of the Bonds;
- (z) maintain its registered office in the United Kingdom; and
- (aa) give notice to the Bond Trustee of the occurrence of any Bond Event of Default or Potential Bond Event of Default.

Issuer Deed of Charge

General

The Issuer will, on or before the Establishment Date, enter into the Issuer Deed of Charge with the Issuer Security Trustee, the Bond Trustee for itself and on behalf of the Bondholders, the Initial Liquidity Facility Providers, the Liquidity Facility Agent, the Account Bank, the Registrar, the Principal Paying Agent, the Agent Bank, the Cash Manager, the Issuer Corporate Services Provider, the

Transfer Agent, any receiver or other appointee and any other creditor of the Issuer which accedes to the Issuer Deed of Charge (together the “**Issuer Secured Creditors**”).

Issuer Security

Pursuant to the Issuer Deed of Charge, the Issuer will on and from the Initial Issue Date secure its obligations to the Issuer Secured Creditors by granting the following security (the “**Issuer Security**”):

- an absolute assignment, subject to a proviso for re-assignment on redemption (or, to the extent not assignable, a first fixed charge) of all of its rights in respect of the Issuer Charged Documents (other than the Dealership Agreement and each Subscription Agreement);
- an absolute assignment, subject to a proviso for re-assignment on redemption (or, to the extent not assignable, a first fixed charge) of all of its rights in respect of any amount standing from time to time to the credit of the Issuer Accounts and all interest paid or payable in relation to those amounts and all debts represented by those amounts;
- a first fixed charge of all its rights in respect of each Cash Equivalent Investment of the Issuer;
- a first fixed charge of all its rights in respect of the benefit of all authorisations held in connection with use of the assets charged under the Issuer Deed of Charge and any compensation which may be payable to it in respect of those authorisations; and
- a first floating charge over the whole of the Issuer’s assets (including, without limitation, its uncalled capital) other than any assets at any time otherwise effectively charged or assigned by way of fixed charge or assignment under the Issuer Deed of Charge.

The Issuer Security will be held on trust by the Issuer Security Trustee for itself and on behalf of the Issuer Secured Creditors in accordance with, and subject to the Issuer Deed of Charge.

Restrictions on the exercise of rights

The Issuer Deed of Charge contains certain restrictions on the Issuer Secured Creditors on the exercise of their rights. These include that, each of the Issuer Secured Creditors agrees with the Issuer and the Issuer Security Trustee that (a) only the Issuer Security Trustee may enforce the Issuer Security in accordance with the terms of the Issuer Deed of Charge, (b) it will not take any steps or proceedings to procure the winding up, administration or liquidation of the Issuer and (c) it will not take any other steps or action against the Issuer or in relation to the Issuer Charged Property for the purpose of recovering any of the secured liabilities or enforcing any rights arising out of the Issuer Transaction Documents against the Issuer or take any other proceedings in respect of or concerning the Issuer or the Issuer Charged Property provided that, subject to item (b) above, the Liquidity Facility Agent and the Super Senior Issuer Hedge Counterparties may sue for, commence or join legal or arbitration proceedings against the Issuer to recover any amounts due and payable in respect of or under the Liquidity Facility Agreement or the relevant Super Senior Issuer Hedging Agreement, as the case may be upon the expiry of a period of 30 days from such non-payment.

Furthermore, each of the Issuer Secured Creditors agrees that all obligations of the Issuer to each Issuer Secured Creditor are limited in recourse to the property, assets, rights and undertakings of each of the Issuer and Holdco that are subject to the Security Interests created in or pursuant to the Issuer Deed of Charge (the “**Issuer Charged Property**”). If (a) there is no Issuer Charged Property remaining which is capable of being realised or otherwise converted into cash, (b) all amounts available from the Issuer Charged Property have been applied to meet or provide for the relevant obligations in accordance with the provisions of the Issuer Deed of Charge and (c) there are insufficient amounts available from the Issuer Charged Property to pay in full the secured liabilities, then the Issuer Secured Creditors shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

The Issuer Secured Creditors in respect of the Common Documents shall only exercise their rights (including, for the avoidance of doubt, Entrenched Rights) through their Secured Creditor Representative.

Priority of payments upon acceleration

The Cash Manager (or any substitute Issuer cash manager appointed by the Issuer Security Trustee to act on its behalf) shall (to the extent that such funds are available) apply all moneys received or recovered by the Issuer Security Trustee or any receiver appointed under the Issuer Deed of Charge following the service of a Bond Enforcement Notice, other than (a) amounts standing to the credit of the Liquidity Standby Account (which are to be paid directly and only to the Liquidity Facility Provider) (b) any Issuer Hedge Collateral Amounts (which are to be applied in returning collateral to, or in satisfaction of amounts owing by, the Issuer Hedge Counterparty in accordance with the Issuer Hedging Agreement), and (c) any HS1 Defeasance Amounts, the proceeds of which are to be applied in redemption of Bonds, will be applied in accordance with the Issuer Post-Enforcement Priority of Payments. See "*Cashflows – Issuer Post-Enforcement Priority of Payments*" for a detailed description.

Enforcement of the Issuer Security

The Issuer Security Trustee will be bound to enforce the Issuer Security if directed to do so by the Bond Trustee, provided that the Issuer Security Trustee has been indemnified and/or secured and/or prefunded to its satisfaction against any liabilities.

The Issuer Security will become immediately enforceable following the occurrence of a Bond Event of Default and the delivery of a Bond Enforcement Notice by the Bond Trustee or, if there are no Bonds outstanding, upon failure by the Issuer to pay any other secured liability on its due date.

Directions, Duties and Liabilities

The Issuer Security Trustee will not be liable or responsible for any liabilities or inconvenience which may result from anything done or omitted to be done by it in accordance with the provisions of the Issuer Deed of Charge, except where the Issuer Security Trustee has failed to show the degree of care and due diligence.

The Issuer Deed of Charge and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English Law.

Issuer Corporate Services Agreement

General

The Issuer will appoint the Issuer Corporate Services Provider to provide certain corporate services to the Issuer and nominate an independent, UK-resident director to serve in the capacity of director of the Issuer, each in consideration for the payment by the Issuer of a fee to the Issuer Corporate Services Provider.

Termination

The Issuer Corporate Services Provider shall be entitled to terminate the Issuer Corporate Services Agreement (a) by giving not less than 90 days' notice in writing to the Issuer; and (b) at any time by notice in writing to the Issuer if the Issuer shall commit any material breach of its obligations under the Issuer Corporate Services Agreement and (if such breach shall be capable of remedy) shall fail within 30 days to make good such breach.

The Issuer shall be entitled to terminate the Issuer Corporate Services Agreement (a) by giving not less than 60 days' notice in writing to the Issuer Corporate Services Provider; (b) at any time by notice in writing to the Issuer Corporate Services Provider if the Issuer Corporate Services Provider becomes subject to a winding-up or liquidation (except for a summary winding-up or a voluntary liquidation for

the purpose of reconstruction or amalgamation upon terms previously approved by the Issuer in writing) or becomes bankrupt, makes, suffers, consents to or acquiesces in any other act or omission indicative of insolvency under the law of any relevant jurisdiction; (c) at any time by notice in writing to the Issuer Corporate Services Provider if the Issuer Corporate Services Provider shall commit any material breach of its obligations under the Issuer Corporate Services Agreement and (if such breach shall be capable of remedy) shall fail within 30 days of receipt of notice in writing served by the Issuer, to make good such breach; or (d) if the Issuer Corporate Services Provider ceases or threatens to cease to carry on its business or a substantial part of its business or stops payment or threatens to stop payment of its debts.

In the event of termination of the Issuer Corporate Services Agreement, the Issuer Corporate Services Provider shall use its reasonable endeavours to procure the services of another person willing to provide corporate services substantially similar to the services performed and agreed by the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement.

Upon the termination of its appointment, the Issuer Corporate Services Provider is required within 5 Business Days of the Issuer's request, to deliver to the Issuer all books and records of the Issuer held by the Issuer Corporate Services Provider.

Agency Agreement

Pursuant to the Agency Agreement entered into on or before the Establishment Date between the Issuer, the Bond Trustee, the Registrar, the Principal Paying Agent, the Transfer Agent and the Agent Bank, provision has been made for, among other things, payment of principal and interest in respect of the Bonds and the maintenance of a register of the holders of the Bonds.

CP Agreement

The conditions precedent to among other things the signing of the CTA, the Establishment Date, the Initial Issue Date and the initial utilisation under the Initial Authorised Credit Facilities Agreement are set out in a conditions precedent agreement (the "**CP Agreement**") as agreed between, among others, the Bond Trustee, the HS1 Security Trustee and the Obligor.

Issuer Cash Management Agreement

General

The Issuer will appoint HS1 as the Cash Manager pursuant to the Issuer Cash Management Agreement dated on or before the Establishment Date. Pursuant to the Issuer Cash Management Agreement, the Cash Manager will undertake certain cash administration functions on behalf of the Issuer.

Cash management functions

As part of its duties under the Issuer Cash Management Agreement, the Cash Manager will, *inter alia*, (a) operate the Issuer Accounts and effect payments to and from the Issuer Accounts in accordance with the provisions of the relevant Issuer Transaction Documents provided that such moneys are at the relevant time available to the Issuer, (b) invest funds not immediately required by the Issuer in Cash Equivalent Investments in accordance with the provisions of the Issuer Cash Management Agreement, (c) make determinations and perform certain obligations on behalf of the Issuer as set out in, and in accordance with, the provisions of the Liquidity Facility Agreement including directing the Issuer to make drawings (or making drawings on behalf of the Issuer) under the Liquidity Facility Agreement, and (d) carry out treasury management functions including the arrangement of Treasury Transactions in line with the Hedging Policy.

Liquidity facility

Allowing sufficient time to deliver any relevant LF Notice of Drawing, the Cash Manager shall determine the amount of any anticipated Issuer Liquidity Shortfall on the next Interest Payment Date

after taking into account the balance standing to the credit of the Issuer Accounts (excluding any Issuer Hedge Collateral Accounts and the Issuer Liquidity Standby Accounts) which will be available to the Issuer on the next Interest Payment Date. Any amounts standing to the credit of the Issuer Debt Service Reserve Account (if any) will be applied to decrease the amount which would otherwise constitute a Issuer Liquidity Shortfall by applying such amount towards payment of items (i) to (vii) (inclusive) of the Issuer Pre-Enforcement Priority of Payments (excluding any termination payments and all other unscheduled amounts payable to any Issuer Hedge Counterparty). The Issuer, or the Cash Manager on its behalf, will issue a notice of drawing to the facility agent under the Liquidity Facility Agreement to cover any such liquidity shortfall.

Pre-enforcement priority of payments

Prior to the delivery of a Bond Enforcement Notice by the Bond Trustee in accordance with Condition 11(b) (*Delivery of Bond Enforcement Notice*), amounts standing to the credit of the Issuer Transaction Accounts (subject to certain exceptions), will be applied by the Cash Manager (on behalf of the Issuer) in accordance with the Issuer pre-enforcement priority of payments waterfall as described in more detail in "*Cashflows - Issuer Pre-Enforcement Priority of Payments*".

Termination

The Issuer may terminate the appointment of the Cash Manager (a) at any time with at least 30 days' prior notice and the consent of the Issuer Security Trustee, (b) if default is made by the Cash Manager in the performance or observance of any of its material covenants and material obligations under the Issuer Cash Management Agreement subject to the applicable grace period, (c) if any Insolvency Event occurs in relation to the Cash Manager and (d) if a Bond Enforcement Notice is given and the Issuer Security Trustee is of the opinion that the continuation of the appointment of the Cash Manager is materially prejudicial to the interests of the Issuer Secured Creditors.

Subject to certain conditions (including that a suitable successor Cash Manager has been installed), the Cash Manager is entitled to resign upon giving 30 days' written notice of termination to the Issuer and the Issuer Security Trustee.

CASHFLOWS

The following sets out the various priorities of payment as included in the respective Finance Documents or Issuer Transaction Documents, as more fully summarised in "Summary of the Common Documents", "Summary of the Finance Documents", "Summary of the Credit and Liquidity Support Documents" and "Summary of the Issuer Transaction Documents" above.

HS1 Pre-Enforcement Priority of Payments

Prior to delivery of a Loan Enforcement Notice, on each Payment Date (or in the case of paragraphs (a) to (c) below, on any day on which such amounts are due and payable), payments to the HS1 Secured Creditors will be made out of monies standing to the credit of the Obligor Operating Accounts (provided that monies standing to the credit of the Obligor Operating Accounts in respect of: (x) HS1 Hedge Replacement Premium (if any) shall be paid directly to the relevant HS1 Hedge Counterparty; and (y) any cash benefit in respect of a Tax Credit that has been received by HS1 in respect of an HS1 Hedging Agreement that HS1 is required to pay to an HS1 Hedge Counterparty under the relevant HS1 Hedging Agreement, shall be paid to the relevant HS1 Hedge Counterparty in accordance with the relevant HS1 Hedging Agreement) in the following order (the "**HS1 Pre-Enforcement Priority of Payments**"), without double-counting and including, in each case, any amount of or in respect of VAT:

- (a) *first, pro rata*, according to the respective amounts thereof in or towards satisfaction of (i) the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by any Obligor to the HS1 Security Trustee or any Receiver under any Transaction Document and (ii) to the Issuer by way of Ongoing Facility Fee, the amounts due in respect of the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to the Issuer Security Trustee, the Bond Trustee and any Receiver under any Issuer Transaction Document;
- (b) *second, pro rata*, according to the respective amounts thereof in or towards satisfaction of (i) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank and attributable to an Obligor incurred under the Account Bank Agreement and (ii) to the Issuer by way of Ongoing Facility Fee, in or towards satisfaction, *pro rata* and *pari passu* of the amounts payable by the Issuer in respect of:
 - (i) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Agents incurred under the Agency Agreement or a Calculation Agency Agreement;
 - (ii) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank incurred under the Account Bank Agreement;
 - (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Services Providers under the Issuer Corporate Services Agreements; and
 - (iv) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Cash Manager incurred under the Issuer Cash Management Agreement;
- (c) *third*, prior to the delivery of a Bond Enforcement Notice only, an amount to the Issuer by way of Ongoing Facility Fee in or towards satisfaction, *pro rata* and *pari passu*, of:
 - (i) payment of amounts due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments), or to become due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments) prior to the next Payment Date, of which the Cash Manager has notice prior to the relevant

Payment Date, which amounts have been incurred without breach by the Issuer of the Issuer Transaction Documents to which it is a party (and for which payment has not been provided elsewhere);

- (ii) Tax for which the Issuer is liable under the laws of any jurisdiction (other than UK corporation tax in respect of the Issuer Profit Amount, which shall be met out of the Issuer Profit Amount); and
 - (iii) to the Issuer by way of Ongoing Facility Fee an amount equal to the Issuer Profit Amount;
- (d) *fourth, pro rata*, according to the respective amounts thereof, *pro rata* and *pari passu*:
- (i) to the Issuer by way of Ongoing Facility Fee in respect of all amounts due by the Issuer to any Liquidity Facility Provider (and any facility agent and arranger under the Liquidity Facility Agreement);
 - (ii) all amounts due by an Obligor to any Liquidity Facility Provider (and any Liquidity Facility Agent and arranger under any Liquidity Facility Agreement); and
 - (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of each facility agent under each Authorised Credit Facility;
- (e) *fifth, pro rata*, according to the respective amounts thereof, *pro rata* and *pari passu*:
- (i) all scheduled amounts, termination payments and accretion or other pay as you go payments payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts in respect of HS1 Subordinated Hedge Amounts); and
 - (ii) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of scheduled amounts, termination payments and accretion or other pay as you go payments payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts);
- (f) *sixth, pro rata*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of, *pro rata* and *pari passu*:
- (i) to the Issuer all amounts of interest due or overdue in respect of the IBLA Loans relating to payments of interest on the Bonds (other than any Subordinated Step-Up Fee Amounts);
 - (ii) all amounts of interest due or overdue in respect of the PP Notes;
 - (iii) all amounts of interest, underwriting and commitment commissions due or overdue in respect of HS1 Senior Debt outstanding under any other Authorised Credit Facility (other than the applicable IBLAs);
 - (iv) all amounts in respect of other unscheduled amounts which are payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of HS1 Subordinated Hedge Amounts);

- (v) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of other unscheduled amounts payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt between the Issuer and an Issuer Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of the Issuer Subordinated Hedge Amounts);
 - (vi) all scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of the HS1 Senior Debt outstanding under the PP Notes or any other Authorised Credit Facility (other than the applicable IBLAs); and
 - (vii) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of all amounts in respect of scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of the Issuer Senior Debt outstanding under the Bonds;
- (g) *seventh, pro rata*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of, *pro rata* and *pari passu*:
- (i) all amounts of principal due or overdue in respect of the IBLA Loans relating to repayments of principal on the Bonds;
 - (ii) all amounts of principal due or overdue in respect of the PP Notes;
 - (iii) all amounts of principal due or overdue in respect of HS1 Senior Debt outstanding under any other Authorised Credit Facility (other than the applicable IBLAs);
 - (iv) all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums due and payable by HS1 to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs and HS1 Subordinated Hedge Amounts); and
 - (v) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums payable by the Issuer to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds (other than in respect of Issuer Subordinated Hedge Amounts);
- (h) *eighth*, in or towards satisfaction of amounts in respect of any Make-Whole Amount due and payable on the Bonds (if any) payable under the applicable IBLA or in respect of any Make-Whole Amount due and payable on the PP Notes (if any);
- (i) *ninth*, so much of the interest under the applicable IBLA as relates to Subordinated Step-Up Fee Amounts in respect of the Bonds (if any); and
- (j) *tenth, pro rata* and *pari passu*, according to the respective amounts thereof:
- (i) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of any Issuer Subordinated Hedge Amounts due or overdue by the Issuer to an Issuer Hedge Counterparty; and

- (ii) any HS1 Subordinated Hedge Amounts due or overdue to an HS1 Hedge Counterparty.

HS1 Post-Enforcement Priority of Payments

Pursuant to the section entitled “*Summary of the Common Documents – Security Trust and Intercreditor Deed – Qualifying HS1 Secured Creditor Instructions – HS1 Post-Enforcement Priority of Payments*”, all Available Enforcement Proceeds (other than any HS1 Defeasance Amounts, which shall be applied in repayment of the Authorised Credit Facility to which the HS1 Defeasance Account in question relates) shall, following the delivery of a Loan Enforcement Notice by the HS1 Security Trustee, or in the circumstances set out in the section entitled “*Summary of the Common Documents – Common Terms Agreement – HS1 Cash Management Agreement – Liquidity Facility*” be applied (to the extent that it is lawfully able to do so) on each Payment Date (or, in the case of items (a) to (c) below, on any day on which such amounts are due and payable) by or on behalf of the HS1 Security Trustee (or, as the case may be, any Receiver), in accordance with the following “**HS1 Post-Enforcement Priority of Payments**” (including in each case any amount of or in respect of VAT) as set out below, without double counting:

- (a) *first, pro rata and pari passu*, according to the respective amounts thereof in or towards satisfaction of (i) the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by any Obligor to the HS1 Security Trustee or any Receiver under any Transaction Document and (ii) to the Issuer by way of Ongoing Facility Fee, the amounts due in respect of the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to the Issuer Security Trustee, the Bond Trustee and any Receiver under any Issuer Transaction Document;
- (b) *second, pro rata and pari passu*, according to the respective amounts thereof in or towards satisfaction of (i) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank attributable to an Obligor under the Account Bank Agreement and (ii) to the Issuer by way of Ongoing Facility Fee, in or towards satisfaction, *pro rata and pari passu* of the amounts payable by the Issuer in respect of:
 - (i) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Agents incurred under the Agency Agreement or a Calculation Agency Agreement;
 - (ii) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank attributable to the Issuer under the Account Bank Agreement;
 - (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement; and
 - (iv) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Cash Manager incurred under the Issuer Cash Management Agreement;
- (c) *third*, prior to the delivery of a Bond Enforcement Notice only, an amount to the Issuer by way of Ongoing Facility Fee in or towards satisfaction, *pro rata and pari passu*, of:
 - (i) payment of amounts due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments), or to become due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments) prior to the next Payment Date, of which the Cash Manager has notice prior to the relevant Payment Date, which amounts have been incurred without

- breach by the Issuer of the Issuer Transaction Documents to which it is a party (and for which payment has not been provided elsewhere);
- (ii) any tax for which the Issuer is liable under the laws of any jurisdiction (other than UK corporation tax in respect of the Issuer Profit Amount, which shall be met out of the Issuer Profit Amount); and
 - (iii) to the Issuer by way of Ongoing Facility Fee an amount equal to the Issuer Profit Amount;
- (d) *fourth, pro rata and pari passu*, according to the respective amounts thereof:
- (i) to the Issuer by way of Ongoing Facility Fee in respect of all amounts due by the Issuer to any Liquidity Facility Provider (and any facility agent and arranger under the Liquidity Facility Agreement);
 - (ii) all amounts due by an Obligor to any Liquidity Facility Provider (and any Liquidity Facility Agent and arranger under any Liquidity Facility Agreement); and
 - (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of each facility agent under each Authorised Credit Facility;
- (e) *fifth, pro rata and pari passu*, according to the respective amounts thereof:
- (i) all scheduled amounts, termination payments and accretion or other pay as you go payments payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts in respect of HS1 Subordinated Hedge Amounts); and
 - (ii) to the Issuer by way of Ongoing Facility Fee (or pursuant to any back-to-back hedging arrangements) in respect of scheduled amounts, termination payments and accretion or other pay as you go payments payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts);
- (f) *sixth, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:
- (i) to the Issuer all amounts of interest due or overdue in respect of the IBLA Advance relating to payments of interest on the Bonds (other than any Subordinated Step-Up Fee Amounts);
 - (ii) all amounts of interest due or overdue in respect of the PP Notes;
 - (iii) all amounts of interest, underwriting and commitment commissions due or overdue in respect of HS1 Senior Debt outstanding under any other Authorised Credit Facility (other than the applicable IBLAs);
 - (iv) other unscheduled amounts which are payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of HS1 Subordinated Hedge Amounts);
 - (v) to the Issuer by way of Ongoing Facility Fee (or pursuant to any back-to-back hedging arrangements) in respect of other unscheduled amounts payable by the

Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt between the Issuer and an Issuer Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of Issuer Subordinated Hedge Amounts);

- (vi) all scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of the HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs); and
 - (vii) to the Issuer by way of Ongoing Facility Fee (or pursuant to any back-to-back hedging arrangements) in respect of all amounts in respect of scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of the Issuer Senior Debt outstanding under the Bonds;
- (g) *seventh, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:
- (i) all amounts of principal due or overdue in respect of the IBLA Advance relating to repayments of principal on the Bonds;
 - (ii) all amounts of principal due or overdue in respect of the PP Notes;
 - (iii) all amounts of principal due or overdue in respect of HS1 Senior Debt outstanding under any other Authorised Credit Facility (other than the applicable IBLAs);
 - (iv) all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums due and payable by HS1 to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs and HS1 Subordinated Hedge Amounts); and
 - (v) to the Issuer by way of Ongoing Facility Fee (or pursuant to any back-to-back hedging arrangements) in respect of all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums payable by the Issuer to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds (other than in respect of Issuer Subordinated Hedge Amounts);
- (h) *eighth*, in or towards satisfaction of amounts in respect of any Make-Whole Amount due and payable on the Bonds (if any) payable under the applicable IBLA or in respect of any Make-Whole Amount due and payable on the PP Notes (if any);
- (i) *ninth*, so much of the interest under the applicable IBLA as relates to Subordinated Step-Up Fee Amounts in respect of the Bonds (if any);
- (j) *tenth, pro rata and pari passu*, according to the respective amounts thereof:
- (i) to the Issuer by way of Ongoing Facility Fee (or pursuant to any back-to-back hedging arrangements) in respect of any Issuer Subordinated Hedge Amounts due or overdue by the Issuer to an Issuer Hedge Counterparty; and

- (ii) any HS1 Subordinated Hedge Amounts due or overdue to an HS1 Hedge Counterparty; and
- (k) *eleventh*:
 - (i) prior to the delivery of a Loan Acceleration Notice any surplus (if any) to an account or accounts specified by the HS1 Security Trustee to be applied by it thereafter in accordance with the foregoing provisions; and
 - (ii) following the delivery of a Loan Acceleration Notice, the surplus (if any) together with all amounts standing to the credit of the Accounts of the Obligor shall be available to each Obligor entitled thereto to deal with as it sees fit.

Issuer Pre-Enforcement Priority of Payments

Prior to the service of a Bond Enforcement Notice by the Bond Trustee in accordance with Condition 11(b) (*Delivery of Bond Enforcement Notice*), amounts standing to the credit of the Issuer Transaction Account (save as expressly provided in Condition 8(f) (*Early Redemption on Prepayment of an IBLA*)) will be applied by the Issuer on each Interest Payment Date (provided that payments may be made from the Issuer Transaction Account other than on an Interest Payment Date to satisfy liabilities in paragraph (b)) in making payment or provision of any amounts then due and payable in the following order of priority (the “**Issuer Pre-Enforcement Priority of Payments**”) including in each case any amount of or in respect of VAT payable thereon:

- (a) *first, pro rata and pari passu*, according to the respective amounts thereof in or towards satisfaction of the fees, costs, charges, Liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to the Issuer Security Trustee, the Bond Trustee and any Receiver or other Appointee under any Issuer Transaction Document;
- (b) *second, pro rata and pari passu*, of the amounts payable by the Issuer in respect of:
 - (i) the fees, other remuneration, indemnity payments, costs, charges, Liabilities and expenses of the Agents incurred under the Agency Agreement or a Calculation Agency Agreement;
 - (ii) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank attributable to the Issuer under the Account Bank Agreement;
 - (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement; and
 - (iv) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Cash Manager incurred under the Issuer Cash Management Agreement;
- (c) *third*, in or towards satisfaction, *pari passu and pro rata*, of:
 - (i) payment of amounts due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments), or to become due and payable to any third party creditors of the Issuer (other than those creditors otherwise specifically provided for in this priority of payments) prior to the next Payment Date, of which the Cash Manager has notice prior to the relevant Payment Date, which amounts have been incurred without breach by the Issuer of the Issuer Transaction Documents to which it is a party (and for which payment has not been provided elsewhere);

- (ii) any tax for which the Issuer is liable under the laws of any jurisdiction (other than UK corporation tax in respect of the Issuer Profit Amount, which shall be met out of the Issuer Profit Amount); and
- (iii) an amount equal to the Issuer Profit Amount;
- (d) *fourth*, in or towards satisfaction of payment of all amounts due by the Issuer to any Liquidity Facility Provider (and any facility agent and arranger under the Liquidity Facility Agreement);
- (e) *fifth, pro rata and pari passu*, according to the respective amounts thereof:
 - (i) scheduled amounts, termination payments and accretion or other pay as you go payments payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts); and
 - (ii) to HS1 pursuant to any back-to-back hedging arrangements in respect of scheduled amounts, termination payments and accretion or other pay as you go payments payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts in respect of HS1 Subordinated Hedge Amounts);
- (f) *sixth, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:
 - (i) all amounts of interest due or overdue in respect of the Bonds (other than Subordinated Step-Up Fee Amounts);
 - (ii) other unscheduled amounts payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt between the Issuer and an Issuer Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of Issuer Subordinated Hedge Amounts);
 - (iii) to HS1 pursuant to any back-to-back hedging arrangements, all amounts in respect of other unscheduled amounts which are payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of HS1 Subordinated Hedge Amounts);
 - (iv) all amounts in respect of scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of the Issuer Senior Debt outstanding under the Bonds; and
 - (v) to HS1 pursuant to any back-to-back hedging arrangements, all scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of the HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs);
- (g) *seventh, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:

- (i) all amounts of principal due or overdue in respect of the Bonds;
 - (ii) all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums payable by the Issuer to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and
 - (iii) to HS1 pursuant to any back-to-back hedging arrangements, all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums due and payable by HS1 to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs and HS1 Subordinated Hedge Amounts);
- (h) *eighth*, in or towards satisfaction of amounts in respect of any Make-Whole Amount due and payable on the Bonds (if any);
 - (i) *ninth*, in or towards satisfaction of amounts in respect of Subordinated Step-Up Fee Amounts in respect of the Bonds (if any);
 - (j) *tenth*, in or towards satisfaction of any amount due to HS1 under any IBLA; and
 - (k) *eleventh*, after retaining the Issuer Profit Amount which the Issuer may, after meeting any UK corporation tax thereon, use to pay a dividend or otherwise to pay to such account or person nominated by the Issuer), any remaining amount, to the maximum extent possible, by way of a rebate of Ongoing Facility Fees to HS1 under the relevant IBLAs.

Issuer Post-Enforcement Priority of Payments

The Cash Manager (or any substitute cash manager) shall (to the extent such funds are available) apply all moneys received or recovered by the Issuer Security Trustee (or any Receiver appointed) following the service of a Bond Enforcement Notice other than (a) amounts standing to the credit of the Liquidity Standby Account (which are to be paid directly and only to the Liquidity Facility Provider), (b) any Issuer Hedge Collateral Amounts (which are to be applied in returning collateral to, or in satisfaction of amounts owing by, the Issuer Hedge Counterparty in accordance with the Issuer Hedging Agreement) and (c) any HS1 Defeasance Amounts, the proceeds of which are to be applied in redemption of Bonds, in accordance with the following "**Issuer Post-Enforcement Priority of Payments**", including in each case any amount of or in respect of VAT payable thereon:

- (a) *first, pro rata and pari passu*, according to the respective amounts thereof in or towards satisfaction of the fees, costs, charges, Liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to the Issuer Security Trustee, the Bond Trustee and any Receiver or other Appointee under any Issuer Transaction Document;
- (b) *second, pro rata and pari passu*, of the amounts payable by the Issuer in respect of:
 - (i) the fees, other remuneration, indemnity payments, costs, charges, Liabilities and expenses of the Agents incurred under the Agency Agreement or a Calculation Agency Agreement;
 - (ii) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Account Bank attributable to the Issuer under the Account Bank Agreement;

- (iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement; and
 - (iv) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Cash Manager incurred under the Issuer Cash Management Agreement;
- (c) *third*, in or towards satisfaction of payment of all amounts due by the Issuer to any Liquidity Facility Provider (and any facility agent and arranger under the Liquidity Facility Agreement);
- (d) *fourth, pro rata and pari passu*, according to the respective amounts thereof;
- (i) scheduled amounts, termination payments and accretion or other pay as you go payments payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts); and
 - (ii) to HS1 pursuant to any back-to-back hedging arrangements in respect of scheduled amounts, termination payments and accretion or other pay as you go payments payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts in respect of HS1 Subordinated Hedge Amounts);
- (e) *fifth, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:
- (i) all amounts of interest due or overdue in respect of the Bonds (other than Subordinated Step-Up Fee Amounts);
 - (ii) other unscheduled amounts payable by the Issuer to each Issuer Hedge Counterparty under any Super Senior Issuer Hedging Agreement in respect of Issuer Senior Debt between the Issuer and an Issuer Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of Issuer Subordinated Hedge Amounts);
 - (iii) to HS1 pursuant to any back-to-back hedging arrangements, all amounts in respect of other unscheduled amounts which are payable to each HS1 Hedge Counterparty under any Super Senior HS1 Hedging Agreement in respect of HS1 Senior Debt between HS1 and an HS1 Hedge Counterparty (other than amounts payable in accordance with the foregoing provisions or in respect of HS1 Subordinated Hedge Amounts);
 - (iv) all amounts in respect of scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of the Issuer Senior Debt outstanding under the Bonds; and
 - (v) to HS1 pursuant to any back-to-back hedging arrangements, all scheduled amounts (other than principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments) payable to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of the HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs);

- (f) *sixth, pro rata and pari passu*, according to the respective amounts thereof, in each case without double counting, in or towards satisfaction of:
- (i) all amounts of principal due or overdue in respect of the Bonds;
 - (ii) all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums payable by the Issuer to each Issuer Hedge Counterparty under any Pari Passu Issuer Hedging Agreement in respect of Issuer Senior Debt outstanding under the Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and
 - (iii) to HS1 pursuant to any back-to-back hedging arrangements, all scheduled principal exchange amounts, termination payments, final payments on cross-currency swaps, accretion and other pay as you go payments or other unscheduled sums due and payable by HS1 to each HS1 Hedge Counterparty under any Pari Passu HS1 Hedging Agreement in respect of HS1 Senior Debt outstanding under any Authorised Credit Facility (other than the applicable IBLAs and HS1 Subordinated Hedge Amounts);
- (g) *seventh*, in or towards satisfaction of amounts in respect of any Make-Whole Amount due and payable on the Bonds (if any);
- (h) *eighth*, in or towards satisfaction of amounts in respect of Subordinated Step-Up Fee Amounts in respect of the Bonds (if any);
- (i) *ninth*, in or towards satisfaction of any amounts in respect of any Issuer Subordinated Hedge Amounts due or overdue by the Issuer to an Issuer Hedge Counterparty;
- (j) *tenth*, in or towards satisfaction of any amount due to HS1 under any IBLA; and
- (k) *eleventh*, the surplus (if any) to the Issuer which will be retained by the Issuer as profit (out of which the Issuer shall satisfy any UK corporation tax thereon) or to other persons entitled thereto.

USE OF PROCEEDS

The net proceeds from each issue of Bonds under the Programme will be on-lent to HS1 under the terms of the Initial IBLA. HS1 will apply the proceeds of the Advances under the Initial IBLA:

- (a) to refinance the Existing Indebtedness;
- (b) towards fees, costs, expenses, stamp, registration and other taxes incurred in connection with the above; and
- (c) for general corporate purposes of the Obligor.

TERMS AND CONDITIONS OF THE BONDS

References herein to the Bonds shall be references to the Bonds of a Tranche and shall mean:

- (a) in relation to a Global Bond, units of each Specified Denomination in the Specified Currency;
- (b) any Global Bond;
- (c) any Bearer Bonds issued in exchange for a Global Bond in bearer form; and
- (d) Registered Bonds (whether or not issued in definitive form and whether or not in exchange for a Global Bond in registered form).

High Speed Rail Finance (1) plc (the “**Issuer**”) has established a bond programme (the “**Programme**”) for the issuance of bonds (the “**Bonds**”). Bonds issued under the Programme on a particular Issue Date comprise a Tranche (each, a “**Tranche**”) in an aggregate nominal amount from time to time outstanding not exceeding the Programme Limit.

Each Tranche of Bonds may be denominated in different currencies or have different interest rates, maturity dates or other terms. Bonds of any Tranche may be zero coupon (“**Zero Coupon Bonds**”), fixed rate (“**Fixed Rate Bonds**”), floating rate (“**Floating Rate Bonds**”), index-linked (“**Index-Linked Bonds**”) or instalment (“**Instalment Bonds**”) depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law or regulation.

The terms and conditions applicable to the Bonds are these terms and conditions (the “**Conditions**”) as may be completed by Part A of a set of final terms, in relation to each Tranche (“**Final Terms**”). In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

The Bonds will be subject to and have the benefit of a bond trust deed to be dated the Establishment Date (as defined below) as the same may be amended, supplemented, restated and/or novated from time to time (the “**Bond Trust Deed**”), between the Issuer and Deutsche Trustee Company Limited as trustee (the “**Bond Trustee**”, which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the “**Agency Agreement**”) to be dated on or about the Establishment Date (to which, among others, the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents or the Transfer Agents and the Registrar are party). As used herein, each of “**Principal Paying Agent**”, “**Paying Agents**”, “**Agent Bank**”, “**Transfer Agent**” and/or “**Registrar**” means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of schedule 1 to the Agency Agreement, the “**Calculation Agency Agreement**”) between, inter alia, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the “**Calculation Agent**”). “**Agents**” shall mean the Principal Paying Agent, the Transfer Agent, the Registrar, the Agent Bank, any Calculation Agent (as defined above) appointed thereunder and any additional Paying Agents also appointed thereunder.

On or about the Establishment Date, the Issuer will enter into a deed of charge (the “**Issuer Deed of Charge**”) with the Issuer Security Trustee as security trustee, pursuant to which the Issuer will grant certain fixed and floating charge security (the “**Issuer Security**”) to the Issuer Security Trustee for itself and the other Issuer Secured Creditors, the Bond Trustee for itself and on behalf of the Bondholders, the Bondholders, each Issuer Hedge Counterparty, each Liquidity Facility Provider, the Liquidity Facility Agreement, the Principal Paying Agent, each Paying Agent, the Calculation Agent (if

any) the Transfer Agent, the Registrar, the Account Bank, the Agent Bank, the Cash Manager and the Issuer Corporate Services Provider (together the “**Issuer Secured Creditors**”)

On or before the Establishment Date, the Issuer will enter into a dealership agreement (the “**Dealership Agreement**”) with the dealers named therein (the “**Dealers**”) in respect of the Programme, pursuant to which any of the Dealers may enter into subscription agreements (each a “**Subscription Agreement**”) in relation to each Tranche of Bonds issued by the Issuer, and pursuant to which the Dealers will agree to subscribe for the relevant Bonds. In any Subscription Agreement relating to a Tranche of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Tranche of Bonds.

The Issuer may enter into liquidity facility agreements (together, the “**Liquidity Facility Agreements**”) with certain liquidity facility providers (each a “**Liquidity Facility Provider**” and together, the “**Liquidity Facility Providers**”) pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls.

The Issuer may enter into certain currency, inflation-linked and interest rate hedging agreements (together, the “**Issuer Hedging Agreements**”) with certain hedge counterparties (together, the “**Issuer Hedge Counterparties**”) in respect of certain Tranches of Bonds, pursuant to which the Issuer hedges certain of its currency and interest rate obligations.

On or before the Establishment Date, the Issuer will enter into a common terms agreement with amongst others, the Obligors and the HS1 Secured Creditors (the “**CTA**”) and a security trust and intercreditor deed between amongst others, the Obligors and the other HS1 Secured Creditors (the “**STID**”).

The Bond Trust Deed, the Bonds (including the applicable Final Terms), the Issuer Deed of Charge, the Agency Agreement, the Liquidity Facility Agreement, the Issuer Hedging Agreements, each IBLA, the STID, the CTA, the Dealership Agreement, each Subscription Agreement, the Issuer Cash Management Agreement, the master definitions agreement between, among others, the Issuer and the Bond Trustee to be dated the Establishment Date (the “**Master Definitions Agreement**”), the account bank agreement between, among others, the Account Bank, the Issuer, HS1, the HS1 Security Trustee and the Bond Trustee (the “**Account Bank Agreement**”), the Tax Deed of Covenant and any related document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, together referred to as the “**Issuer Transaction Documents**”.

In these Conditions, words denoting the singular number only shall include the plural number also and *vice versa*. Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions Agreement and these Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or in the Bond Trust Deed, the STID, the CTA or the Issuer Deed of Charge. Copies of the Bond Trust Deed, STID, CTA, Master Definitions Agreement and the Issuer Deed of Charge are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of Bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of Registered Bonds), save that, if this Bond is an unlisted Bond of any Tranche, the applicable Final Terms will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Tranche and such Bondholder must provide evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the Issuer Deed of Charge, the STID, CTA and other Issuer Transaction Documents applicable to them and the relevant Final Terms and to have notice of those provisions of the Agency Agreement and the other Issuer Transaction Documents applicable to them. In the event of any inconsistency between the terms and conditions set out herein and the terms set out in the STID, the Issuer Deed of Charge and the CTA, the terms of the STID, the Issuer Deed of Charge or the CTA (as the case may be) shall prevail.

Any reference in these conditions to a matter being “specified” means as the same may be specified in the relevant Final Terms.

1. **Form, Denomination and Title**

(a) *Form and Denomination*

The Bonds are in bearer form (“**Bearer Bonds**”) or in registered form (“**Registered Bonds**”) as specified in the applicable Final Terms and, in the case of Definitive Bonds, serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be £100,000, €100,000, U.S.\$200,000 or not less than the equivalent of €100,000 in any other currency as at the date of issue of the relevant Bonds (or such other amount required by applicable law from time to time as stated in the applicable Final Terms) and in the case of the Bonds in respect of which the publication of a Prospectus is not required under the Prospectus Directive the minimum Specified Denomination shall not be less than that required by applicable law as stated in the applicable Final Terms. Bonds may be issued in such denomination and higher integral multiples of a smaller amount if specified in the applicable Final Terms. Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds. References in these Conditions to “**Bonds**” include Bearer Bonds and Registered Bonds and all Tranches and Tranche.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

The Bonds may be Zero Coupon Bonds, Fixed Rate Bonds, Floating Rate Bonds, Index-Linked Bonds or Instalment Bonds, as specified in the applicable Final Terms.

Interest bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

(b) *Title*

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the “**Register**”), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each reference to “**Bondholder**” (in relation to a Bond, Coupon, Receipt or Talon), “**holder**” and “**Holder**” means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon

(as the case may be) and (ii) in relation to a Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions “**Bondholder**”, “**holder**” and “**Holder**” include the holders of instalment receipts (“**Receipts**”) appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the “**Receiptholders**”), the holders of the coupons (“**Coupons**”) (if any) appertaining to interest bearing Bonds in bearer form (the “**Couponholders**”), and the expression Couponholders or Receiptholders includes the holders of talons (“**Talons**”) in relation to Coupons or Receipts as applicable, (“**Talonholders**”).

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

- (c) The Issuer may, from time to time, without the consent of the Bondholders, Receiptholders or Couponholders, create and issue further Bonds having the same terms and conditions as the Bonds of a Tranche in all respects (or in all respects except for the first payment of interest). Accordingly, a Tranche of Bonds may comprise a number of issues in addition to the initial Tranche of such Tranche. Such further issues of the same Tranche will be consolidated and form a single Tranche with the prior issues of that Tranche.

2. **Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds**

(a) *Exchange of Bonds*

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it. Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Registered Definitive Bond, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred and (ii) the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations. In the case of a transfer of part only of a holding of

Registered Bonds represented by a Registered Definitive Bond, a new Registered Definitive Bond in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) *Delivery of New Registered Definitive Bonds*

Each new Registered Definitive Bond to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Registered Definitive Bond to such address as may be specified in such request for exchange or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the Business Day (as defined in Condition 22 (*Definitions*)) following the due date for such payment.

(d) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No transfer of a Registered Bond may be registered, nor may any exchange of a Bearer Bond for a Registered Bond occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

(f) *Regulations Concerning the Transfer of Registered Bonds*

All transfers of Registered Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Principal Paying Agent, the Bond Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

3. **Status of Bonds**

(a) *Status of the Bonds*

The Bonds, Coupons, Talons and Receipts (if any) are direct and (subject to Condition 20 (*Limited Recourse*)) unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with the Issuer Secured Creditors*) and rank *pari passu* without any preference among themselves.

(b) *Bond Trustee not responsible for monitoring compliance*

The Bond Trustee shall not be responsible for monitoring compliance by the Issuer with any of its obligations under the Issuer Transaction Documents except by means

of receipt of a certificate from the Issuer which will state, among other things, that no Bond Event of Default is outstanding. The Bond Trustee shall be entitled to rely on such certificates absolutely. The Bond Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Issuer Transaction Documents. The Bond Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any one director of the Issuer, the Obligors (or any of them) or any other party to any Issuer Transaction Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Bond Trustee may require to be satisfied. The Bond Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Bond Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

4. **Security, Priority and Relationship with the Issuer Secured Creditors**

(a) *Security*

As continuing security for the payment or discharge of the Issuer Secured Liabilities (including all moneys payable in respect of the Bonds, Coupons and Receipts and otherwise under the Bond Trust Deed, the Issuer Deed of Charge and any deed or other document executed in accordance with the Bond Trust Deed or the Issuer Deed of Charge and expressed to be supplemental to the Bond Trust Deed or the Issuer Deed of Charge (as applicable) (the “**Trust Documents**”) (including the remuneration, expenses and other claims of the Issuer Security Trustee and any Receiver appointed under the Issuer Deed of Charge)), the Issuer has entered in to the Issuer Deed of Charge to create as far as permitted by and subject to compliance with any applicable law, the following security, (the “**Issuer Security**”) in favour of the Issuer Security Trustee for itself and on trust for the other Issuer Secured Creditors:

- (i) an assignment by the Issuer by way of a first fixed security of its right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents to which it is a party (other than the Dealership Agreement and each Subscription Agreement), including the security trusts created under the HS1 Deed of Charge, each IBLA, the CTA, the Issuer Hedging Agreements, the Liquidity Facility Agreement and the STID;
- (ii) fixed or floating charges over the Issuer Accounts, and amounts standing to the credit of the Issuer Accounts and charges over investments; and
- (iii) a first fixed charge over all investments in Cash Equivalent Investments permitted to be made by the Issuer pursuant to the Account Bank Agreement, which security interests may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors; and
- (iv) a first floating charge (ranking behind the claims of certain preferential and other creditors) over all of the property, assets and undertakings of the Issuer not already subject to fixed security,

all as more particularly set out in the Issuer Deed of Charge.

All Bonds issued by the Issuer under the Programme will share in the Issuer Security constituted by the Issuer Deed of Charge, upon and subject to the terms thereof.

(b) *Relationship among Bondholders and with other Issuer Secured Creditors*

The Bondholders from time to time are Issuer Secured Creditors. The Bond Trustee is a Issuer Secured Creditor on its own behalf and on behalf of the Bondholders from time to time.

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of Bondholders as regards all discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*)).

(c) *Enforceable Security*

In the event of the Issuer Security becoming enforceable as provided in the Issuer Deed of Charge, the Issuer Security Trustee shall, if instructed by the Bond Trustee (acting on the instructions of the holders of the Bonds then outstanding in accordance with the terms of the Bond Trust Deed) enforce its rights with respect to the Issuer Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, provided that the Issuer Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Application After Enforcement*

After enforcement of the Issuer Security, the Issuer Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Issuer Accounts and proceeds of the enforcement of the Issuer Security to make payments in accordance with the Issuer Post-Enforcement Priority of Payments (as set out in the Issuer Deed of Charge).

(e) *Issuer Security Trustee not liable for security*

The Issuer Security Trustee will not make, and will not be liable for any failure to make any investigations in relation to the property which is the subject of the Issuer Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the Issuer Security, whether such defect or failure was known to the Issuer Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Issuer Security created under the Issuer Deed of Charge whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Issuer Security or otherwise. The Issuer Security Trustee shall have no responsibility for the value of any such Issuer Security.

5. **Issuer Covenants**

So long as any of the Bonds remains outstanding, the Issuer has agreed to comply with the covenants as set out in the Bond Trust Deed.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6. **Interest and other Calculations**

(a) *Interest Rate and Accrual*

Each Bond (unless specified in the relevant Final Terms to be a Zero Coupon Bond) bears interest on its Principal Amount Outstanding as defined below from the Interest

Commencement Date (as defined below) at the Interest Rate (as defined below), such interest being payable in arrear (unless otherwise specified in the relevant Final Terms) on each Interest Payment Date (as defined below).

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate that would otherwise apply in respect of unpaid amounts on such Bonds at such time to the Bond Relevant Date (as defined in Condition 22 (*Definitions*)).

If any maximum rate of interest or minimum rate of interest is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(b) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms is specified to be subject to adjustment in accordance with a Business Day Convention and would otherwise fall on a day which is not a Business Day (as defined in Condition 22 (*Definitions*)), then if the business day convention specified in the relevant Final Terms is:

- (i) the “**Following Business Day Convention**”, such date shall be postponed to the next day which is a Business Day;
- (ii) the “**Modified Following Business Day Convention**”, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (iii) the “**Preceding Business Day Convention**”, such date shall be brought forward to the immediately preceding Business Day.

(c) *Floating Rate Bonds*

This Condition 6(c) is applicable if the relevant Final Terms specify the Bonds as Floating Rate Bonds and in the limited circumstances set out in Condition 6(d) (*Fixed Rate Bonds*) and Condition 6(e) (*Index-Linked Bonds*).

If “**Screen Rate Determination**” is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:

- (i) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 22 (*Definitions*));
- (ii) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined below) which appear on the Page as of the Relevant Time (as defined below) on the relevant Interest Determination Date (as defined below) provided that, if five or more offered quotations are available on the relevant Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Agent Bank (or

Calculation Agent, if applicable) for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations);

- (iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 22 (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined below) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested in Condition 6(c)(iii), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the relevant Interest Determination Date (as defined in Condition 22 (*Definitions*)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 22 (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the rate or (as the case may be) the arithmetic mean so determined and (a) for any Interest Period that ends before the Scheduled Redemption Date, the Margin and (b) for any Interest Period that ends on or after the Scheduled Redemption Date, the Margin and the Step-Up Floating Fee Rate. However, if the Agent Bank or the Calculation Agent (as applicable) is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

If “**ISDA Determination**” is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the ISDA Rate and (a) for any Interest Period that ends before the Scheduled Redemption Date, the Margin and (b) for any Interest Period that ends on or after the Scheduled Redemption Date, the Margin and the Step-Up Floating Fee Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

- (ii) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 22 (*Definitions*)); and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on London interbank offered rate (“**LIBOR**”) for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on the Euro-zone interbank offered rate (“**EURIBOR**”), the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms.

(d) *Fixed Rate Bonds*

This Condition 6(d) is applicable only if the relevant Final Terms specify the Bonds as Fixed Rate Bonds.

Subject to the next paragraph, the Interest Rate applicable to the Bonds for each Interest Period will be the rate specified in the relevant Final Terms.

The Interest Rate applicable to the Bonds for each Interest Period from (and including) the Scheduled Redemption Date will be a floating rate equal to the sum of (a) the rate determined in accordance with Condition 6(c) (*Floating Rate Bonds*) if that Condition otherwise applied and (b) the Step-Up Fixed Fee Rate.

(e) *Index-Linked Bonds*

This Condition 6(e) is applicable only if the relevant Final Terms specify the Bonds as Index-Linked Bonds.

Payments of principal on, and the interest payable in respect of, the Bonds will be subject to adjustment for indexation and to the extent set out in Condition 7(b) (*Application of the Index Ratio*).

Subject to the next paragraph, the Interest Rate applicable to the Bonds for each Interest Period will be the rate specified in the relevant Final Terms.

The Interest Rate applicable to the Bonds for each Interest Period from (and including) the Scheduled Redemption Date will be a floating rate equal to the sum of (a) the arithmetic mean rate determined in accordance with Condition 6(c) (*Floating Rate Bonds*) if that Condition otherwise applied and (b) the Step-Up Fixed Fee Rate.

(f) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

- (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up);
- (ii) all figures will be rounded to seven significant figures (with halves being rounded up); and
- (iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, “unit” means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) *Calculations*

The amount of interest payable in respect of any Bond for each Interest Period shall be calculated by applying the Interest Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Bond divided by the Calculation Amount (as defined in Condition 22 (*Definitions*)) and, in the case of Index-Linked Bonds only, adjusted according to the indexation set out in Condition 7(b) (*Application of the Index Ratio*), unless an Interest Amount is specified in respect of such period in the relevant Final Terms, in which case the amount of interest payable in respect of such Bond for such Interest Period will equal such Interest Amount.

(h) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an “**Instalment Amount**”), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the amount of interest payable (the “**Interest Amounts**”) in respect of each Specified Denomination of Bonds for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation as soon as possible after its determination but in no event later than (i) (in case of notification to the Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Bonds are for the time being listed or by which they have been admitted to listing, to the Principal Paying Agent, the Bond Trustee and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Bond Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(i) *Agent Bank, Calculation Agent and Reference Banks*

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(j) *Determination or Calculation by Bond Trustee*

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability to any person for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to (i) any minimum interest rate or maximum interest rate specified in the applicable Final Terms; and (ii) the terms of the Bond Trust Deed) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable). In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Agent Bank (or Calculation Agent if applicable).

(k) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent or the Agent Bank (or the Calculation Agent, if applicable) shall (in the absence of wilful default, gross negligence, bad faith or manifest error) be binding on the Issuer, each Obligor, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Obligors, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

7. **Indexation**

This Condition 7 is applicable only if the relevant Final Terms specify the Bonds as Index-Linked Bonds.

(a) *Definitions*

“**affiliate**” means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and for this purpose “control” means control as defined in the Companies Act 2006;

“**Base Index Figure**” means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms;

“**Index**” or “**Index Figure**” means, subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (“RPI”) (for all items) published by the Central Statistical Office and available to view at www.statistics.gov.uk (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure:

- (i) applicable to a particular month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;
- (ii) applicable to the first calendar day of any month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
- (iii) applicable to any other day in any month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (ii) above, and (y) the Index Figure applicable to the first calendar day of the following month, calculated as specified in sub-paragraph (ii) above, and rounded in accordance with Condition 6(f) (*Rounding*).

If the Index is replaced, the Issuer will describe the replacement Index in a supplementary prospectus;

“**Index Ratio**” applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure;

“**Limited Index Ratio**” means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

“**Limited Indexation Factor**” means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the maximum indexation factor in relation to the Index Ratio specified in the relevant Final Terms (the “**Maximum Indexation Factor**”), it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the minimum indexation factor in relation to

the Index Ratio specified in the relevant Final Terms (the “**Minimum Indexation Factor**”), it shall be deemed to be equal to such Minimum Indexation Factor;

“**Limited Indexation Month**” means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

“**Limited Index-Linked Bonds**” means Index-Linked Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies; and

“**Reference Gilt**” means the United Kingdom government stock specified as such in the relevant Final Terms, for so long as such stock is in issue, as the benchmark gilt the maturity of which most closely matches the average life of the relevant Index-Linked Bonds, and thereafter such issue of index-linked United Kingdom government stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an “**Indexation Adviser**”).

(b) *Application of the Index Ratio*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Index-Linked Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(f) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index*

(i) *Change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “**Index**” and “**Index Figure**” in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the then existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) *Delay in publication of Index:* If the Index Figure relating to any month (the “**relevant month**”) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the “**date for payment**”) (otherwise than because the Index has ceased to be published), the Index Figure applicable to the relevant month shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, (or such other body designated by the UK government for such purpose) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked treasury stock selected by an Indexation Adviser (and approved by the Bond Trustee); or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(ii)(1)) before the date for payment.

(d) *Application of Changes*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) *Cessation of or Fundamental Changes to the Index*

- (i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders (where “materially prejudicial” means that such change would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor), the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 business day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

- (iii) If any payment in respect of the Bonds is due to be made after the cessation or changes referred to in Condition 7(e)(i) but before any such adjustment to, or replacement of, the Index takes effect, the Issuer shall (if the Index Figure applicable (or deemed applicable) to the relevant month is not available in accordance with the provisions of Condition 7(c)(i) (*Change in base*) above) make a provisional payment on the basis that the Index Figure applicable to the month in which such payment is due to be made is the Index Figure last published. In that event, or in the event of any payment (also referred to below as a “**provisional payment**”) on the Bonds having been made on the basis of an Index applicable under Condition 7(c)(ii)(1) and the Bond Trustee (acting solely on the advice of an Indexation Adviser) subsequently determining that the relevant circumstances fall within this Condition 7(e) (*Cessation of or Fundamental Changes to the Index*), then:
 - (A) in relation to a payment of principal or interest in respect of the Bonds other than upon final redemption of such Bond, if the sum which would have been payable if such adjustment of substitute index had been in effect on the due date for such payment is greater or less than the amount of such provisional payment, the Interest Amount payable on the Bonds on the Interest Payment Date next succeeding the date on which such adjustment or substitute index becomes effective shall be increased or reduced to reflect the amount by which such provisional payment fell short of, or (as the case may be) exceeded, the sum which would have been paid on the Bonds if such adjustment or substituted index had been in effect on that date; or
 - (B) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.
- (iv) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the other Issuer Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

8. **Redemption, Purchase and Cancellation**

(a) *Scheduled Redemption*

Unless previously redeemed in full, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms as having no fixed Final Maturity Date, the Bonds will be redeemed on the Scheduled Redemption Date as follows and to the following extent:

- (i) if, by the Scheduled Redemption Date, the Issuer has received repayment of the related advance (in accordance with the provisions of the relevant IBLA) of a principal amount equal to the Principal Amount Outstanding (in the case of Index-Linked Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), then the Bonds will be redeemed in full (after exchange of such principal amount to the relevant currency pursuant

to the relevant Pari Passu Issuer Hedging Agreement, if such a Pari Passu Issuer Hedging Agreement has been entered into); and

- (ii) if, by the Scheduled Redemption Date, the Issuer has received repayment of the related advance (in accordance with the provisions of the relevant IBLA) of a principal amount less than the Principal Amount Outstanding (in the case of Index-Linked Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), then the Bonds will be redeemed *pro rata* in part to the extent of the amount which is so deposited (after exchange of such principal amount to the relevant currency pursuant to the relevant Pari Passu Issuer Hedging Agreement, if such a Pari Passu Issuer Hedging Agreement has been entered into).

If the Bonds are not redeemed in full by the Scheduled Redemption Date, then on each Interest Payment Date which thereafter occurs, the Bonds will be redeemed in full or, as the case may be, *pro rata* in part to the extent of the principal amount (after exchange of such principal amount to the relevant currency pursuant to the relevant Pari Passu Issuer Hedging Agreement, if such a Pari Passu Issuer Hedging Agreement has been entered into or, if there is no longer a Pari Passu Issuer Hedging Agreement in place and the Bonds are denominated in a currency other than the currency of the related advance, at a spot rate of exchange) which, if any, is received by the Issuer in repayment of the related advance(s) (in accordance with the provisions the relevant IBLA) until the earlier of (a) such time as the Bonds are redeemed in full or (b) the Final Maturity Date specified in the relevant Final Terms for the Bonds.

(b) *Final Redemption*

If the Bonds of a Tranche have not previously been redeemed in full, or purchased and cancelled, the Bonds of such Tranche will be finally redeemed at the then Principal Amount Outstanding (in the case of Index-Linked Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) plus accrued but unpaid interest on the Final Maturity Date specified in the relevant Final Terms for such Tranche.

(c) *Redemption of Zero Coupon Bonds after Scheduled Redemption Date*

If the relevant Final Terms specifies that there is a Scheduled Redemption Date for the Bonds, the Redemption Amount payable upon redemption of a Zero Coupon Bond at any time after the Scheduled Redemption Date shall be an amount equal to the sum of:

- (i) the Redemption Amount that would have been payable if the Bond had been redeemed on the Scheduled Redemption Date; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to such amount from (and including) the Scheduled Redemption Date to (but excluding) the date of redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of Condition 8(h) (*Early redemption of Zero Coupon Bonds*) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, “**Accrual Yield**” has the meaning given to it in the relevant Final Terms.

(d) *Optional Redemption*

Subject as provided below, upon giving not more than 60 nor less than 15 days' prior written notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders, the Issuer may (prior to the Final Maturity Date) redeem the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, as follows:

- (i) In respect of Fixed Rate Bonds denominated in sterling, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(d)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 5 or any replacement therefor and, for the purposes of such calculation, the date of redemption of the relevant Fixed Rate Bonds shall be assumed to be the Scheduled Redemption Date and not Final Maturity Date; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(d)(i); and "**Reference Gilt**" means the treasury stock specified in the relevant Final Terms or, if no such security is specified, the Treasury stock whose modified duration most closely matches that of the Bonds on the Reference Date with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee).

- (ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms) plus any accrued but unpaid interest on the Principal Amount Outstanding.
- (iii) In respect of Index-Linked Bonds denominated in sterling, the Redemption Amount will (unless otherwise specified in the relevant Final Terms) be the higher of (i) the Principal Amount Outstanding and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt edged market, (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, plus accrued but unpaid

interest (as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(d)(iii), “**Gross Real Redemption Yield**” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication “Formulae for Calculating Gilt Prices from Yields” published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement therefor, and, for the purposes of such calculation, the date of redemption of the relevant Index-Linked Bonds shall be assumed to be Scheduled Redemption Date and not the Final Maturity Date; “**Reference Date**” means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(d)(iii); and “**Reference Gilt**” means the treasury stock specified in the relevant Final Terms or, if no such security is specified, the Treasury stock whose modified duration most closely matches that of the Bonds on the Reference Date with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee).

- (iv) In respect of Fixed Rate Bonds denominated in euro, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) the present value at the Reference Date (as defined below) of (A) their Principal Amount Outstanding plus (B) all required interest payments due on the Bonds (excluding accrued but unpaid interest to the date on which the Bonds are to be redeemed (the “**Redemption Date**”)), computed using a discount rate equal to the Bund Rate as of the Reference Date and assuming the relevant Fixed Rate Bonds would otherwise have been redeemed on the Scheduled Redemption Date, plus, in either case, accrued but unpaid interest to the Redemption Date.

For the purposes of this Condition 8(d)(iv), “**Bund Rate**” means, with respect to any Reference Date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price on such date of determination; “**Comparable German Bund Issue**” means the German Bundesanleihe security specified in the relevant Final Terms or, if no such security is specified or the specified security is no longer in issue, the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such Reference Date to the Scheduled Redemption Date and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then Principal Amount Outstanding of the Bonds and of a maturity most nearly equal to the Scheduled Redemption Date provided, however, that if the period from such Reference Date to the Scheduled Redemption Date is less than one year, a fixed maturity of one year shall be used; “**Comparable German Bund Price**” means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations or, if the Financial Adviser obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations; “**Financial Adviser**” means a financial adviser in Frankfurt (selected by the Issuer and approved by the Bond Trustee); “**Reference Date**” means the date which is three Business Days prior to the dispatch of

the notice of redemption under this Condition 8(d)(iv); “**Reference German Bund Dealer**” means any dealer of German Bundesanleihe securities appointed by the Financial Adviser; and “**Reference German Bund Dealer Quotations**” means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Financial Adviser of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Financial Adviser by such Reference German Bund Dealer at or about 3:30 p.m. (Frankfurt, Germany time) on the Reference Date.

- (v) In respect of Fixed Rate Bonds denominated in U.S. dollars, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to, the accrued but unpaid interest on the Principal Amount Outstanding, plus the greater of (a) one per cent. of the Principal Amount Outstanding and (b) the excess of: (i) the present value at such Optional Redemption Date (as defined in the Final Terms) of the redemption price of the Bonds at the Scheduled Redemption Date, plus all required interest payments, that would otherwise be due to be paid on the Bonds during the period between such Optional Redemption Date and the Scheduled Redemption Date, excluding accrued but unpaid interest, computed using a discount rate equal to the Treasury Rate (as defined below) at such Optional Redemption Date plus 50 basis points, over (ii) the Principal Amount Outstanding on such Optional Redemption Date.

“**Treasury Rate**” means, with respect to any Optional Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Scheduled Redemption Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date, where:

“**Comparable Treasury Issue**” means the United States Treasury security specified in the relevant Final Terms or, if no such security is specified the United States Treasury security selected by any Reference Treasury Dealer as having a maturity comparable to the remaining term of the Bonds from the Optional Redemption Date to the Scheduled Redemption Date, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Scheduled Redemption Date;

“**Comparable Treasury Price**” means, with respect to any redemption date, if clause (ii) of the definition of “Treasury Rate” is applicable, the average of all Reference Treasury Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest

and lowest such Reference Treasury Dealer Quotations, of if the Issuer obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations;

“**Federal Reserve System**” means the central banking system of the United States;

“**Reference Treasury Dealer**” means any primary U.S. government securities dealer appointed by the Issuer; and

“**Reference Treasury Dealer Quotations**” means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Issuer by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding such redemption date.

In any case, prior to giving any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Issuer Security) of any other person, required to redeem the Bonds as aforesaid and the Bond Trustee shall be entitled to rely on such certificate without liability to any person.

In the case of a partial redemption of a Tranche of Bonds represented by a Global Note (as defined in the Bond Trust Deed) pursuant to this Condition, the Bonds to be redeemed (the “**Redeemed Bonds**”) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Bonds in definitive form, a list of the serial numbers of such Redeemed Bonds will be published in accordance with Condition 17 (*Notices*) not less than 15 days (or such shorter period as is specified in the applicable Final Terms) prior to the date fixed for redemption. No exchange of the relevant Global Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8(d) and notice to that effect shall be given by the Issuer to the Bondholders in accordance with Condition 17 (*Notices*) at least five days (or such shorter period as is specified in the applicable Final Terms) prior to the Selection Date.

(e) *Redemption for Index Event, Taxation or Other Reasons*

- (i) *Redemption for Index Events:* Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 15 nor less than 5 Business Days’ prior written notice to the Bond Trustee, the Issuer Secured Creditors and the holders of the Index-Linked Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Index-Linked Bonds of all Tranche of Bonds on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Index-Linked Bonds may be redeemed in these circumstances unless all the other Tranche of Indexed Bonds linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Issuer shall provide to the Bond Trustee and the Issuer

Secured Creditors a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

“**Index Event**” means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty’s Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

- (ii) *Redemption for Taxation Reasons and Illegality*: In addition, if at any time the Issuer satisfies the Bond Trustee:
- (A) that the Issuer would become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of Taxes by reason of any change in or amendment to such laws or regulations or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction),
 - (B) that, by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date, the Issuer is no longer a “securitisation company” (as defined in the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (for the purposes of this Condition 8(e)(ii)(B), the “**Regulations**”)) and is otherwise unable to claim a tax treatment in the United Kingdom that would prevent a material increase in the tax liabilities of the Issuer compared to the treatment previously provided to the Issuer under the Regulations;
 - (C) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that HS1 would on the next Interest Payment Date be required to make any withholding or deduction for or on account of any Taxes from payments in respect of an IBLA;
 - (D) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that an Issuer Hedge Counterparty would be entitled to terminate a Hedging Agreement in accordance with its terms as a result of the Issuer or the Issuer Hedge Counterparty being required to make any withholding or deduction for or on account of any Taxes from payments in respect of an Issuer Hedging Agreement; or
 - (E) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that it has or will have the result that it will

become unlawful for the Issuer to perform any of its obligations under any IBLA or to fund or to maintain its participation in the Advances,

then the Issuer may, in order to avoid the relevant deductions, withholding or illegality but is not obliged to, (i) use its reasonable endeavours to arrange the substitution of a company incorporated under the laws of another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under an IBLA upon satisfying the conditions for substitution of the Issuer as set out in Condition 15 (*Passing of resolutions by Bondholders, Modification, Waiver and Substitution*) or (ii) convert any Bearer Bonds into Registered Bonds in accordance with Condition 2(a) (*Exchange of Bonds*) if such conversion will be effective to avoid the relevant deduction or withholding or illegality. If the Issuer elects not to seek to avoid the relevant deductions, or is unable to arrange a substitution as described above having used reasonable endeavours to do so or a conversion of Bearer Bonds to Registered Bonds would not prevent any withholding or deduction or illegality and, as a result, the relevant deduction or withholding or illegality is continuing then the Issuer may, upon giving not more than 15 nor less than 5 Business Days' prior written notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the affected Tranche of Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Index-Linked Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee a certificate signed by a director of the Issuer (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have been satisfied and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Issuer Deed of Charge to be paid in priority to, or *pari passu* with, such Bonds under the Issuer Payment Priorities. Upon the expiry of any such notice as is referred to in Condition 8(e)(i) (*Redemption for Index Events*), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 8(e)(ii).

The Bond Trustee shall be entitled to accept and rely without further enquiry on any certificate referred to in this Condition 8(e) as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Bondholders, the Receiptholders and the Couponholders.

(f) *Early Redemption on Prepayment of an IBLA*

If:

- (i) HS1 gives notice to the Issuer under an IBLA that it intends to prepay all or part of any advance made under such IBLA or HS1 is required to prepay all or part of any advance made under any IBLA; and
- (ii) in each case, such advance was funded by the Issuer from the proceeds of a Tranche of Bonds,

the Issuer shall, upon giving not more than 10 nor less than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the relevant Tranche of Bonds or (where part only of such advance is being prepaid) the proportion of the relevant Tranche of Bonds which the proposed prepayment amount bears to the amount of the relevant advance.

Subject to Condition 8(g) (*Early redemption following Loan Enforcement Notice*), in the case of a voluntary prepayment, the relevant Tranche of Bonds will be redeemed at its Redemption Amount determined in accordance with Condition 8(d) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Index-Linked Bonds, for purposes of this Condition 8(f), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(f), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

Notwithstanding the foregoing, no redemption of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Index-Linked Bonds shall be made in respect of any Tranche of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Index-Linked Bonds at such Redemption Amount unless sanctioned by an Extraordinary Resolution of the Bondholders of the relevant Tranche of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Index-Linked Bonds, duly passed in accordance with the Bond Trust Deed. For the purposes of this Condition 8(f) "**Call Protected Floating Rate Bonds**" means any Floating Rate Bonds, the Final Terms in respect of which, at the proposal date of redemption, would oblige the Issuer to pay a premium to par upon the optional early redemption of such Floating Rate Bonds.

(g) *Early redemption following Loan Enforcement Notice*

If the Issuer receives (or is to receive) any monies from HS1 following the service of a Loan Enforcement Notice in repayment of all or any part of an Advance, the Issuer shall, upon giving not more than 10 nor less than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*) apply such monies to redeem the then outstanding Bonds of the relevant Tranche corresponding to the advance under an IBLA which is prepaid at their Principal Amount Outstanding (adjusted for indexation in the case of Index-Linked Bonds) plus accrued but unpaid interest on the next Interest Payment Date (or, if sooner, Final Maturity Date). In the event that there are insufficient monies to redeem all of the Bonds outstanding of a particular Tranche, the Bonds of such Tranche shall be redeemed in part in the proportion which the Principal Amount Outstanding of such Tranche to be redeemed bears to the Principal Amount Outstanding of such Tranche.

(h) *Early redemption of Zero Coupon Bonds*

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Final Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 8(h) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, “**Accrual Yield**” and “**Reference Price**” have the meanings given to them in the relevant Final Terms.

(i) *Purchase of Bonds*

Each of the Issuer, a nominee of the Issuer, Holdco or a Subsidiary of Holdco may, provided that no Loan Event of Default or Bond Event of Default has occurred and is continuing, purchase Bonds (together with all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto) in the open market or otherwise (but not, for the avoidance of doubt, in any initial distribution of Bonds) at any price (without any obligation to surrender such Bonds for cancellation other than as set out in Condition 8(k) (*Cancellation*)) and, to the extent that such Bonds have not been cancelled, may resell them in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

Any Bond purchased by the Issuer, Holdco or a Subsidiary of Holdco shall, for so long as it is held by it (or on its behalf), cease to have voting rights and be excluded from any quorum or voting calculations set out in the Conditions.

While the Bonds are represented by a Global Bond, the relevant Global Bond will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(j) *Redemption by Instalments*

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the Instalment Amount.

(k) *Cancellation*

Any Bearer Bonds or Registered Bonds which are: (i) redeemed by the Issuer; (ii) purchased or held by or on behalf of the Issuer or any other person specified in Condition 8(i) (*Purchase of Bonds*) following a Loan Event of Default; or (iii) purchased by or on behalf of the Issuer or a Obligor or any equivalent or similar provision in any Authorised Credit Facility to the extent required to cure a Trigger Event in accordance with the CTA, shall, in each case, be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

9. **Payments**

(a) *Bearer Bonds*

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts)

in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

No payment of principal and/or interest in respect of a Bearer Bond with an original maturity of more than 1 year will be made by a transfer of funds into an account maintained by the payee in the United States or by mailing a cheque to an address in the United States, except as provided in Condition 9(c) (*Payments in the United States of America*).

(b) *Registered Bonds*

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named if joint holders) on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be prima facie evidence that such payment has been made.

(c) *Payments in the United States of America*

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

- (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

- (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and
- (iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) *Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond in respect of each amount paid.

(e) *Appointment of the Agents*

The Agents appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer (and, in the circumstances set out in the Agency Agreement, the Bond Trustee) and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds), (ii) a Registrar (in the case of Registered Bonds), (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms) (in the case of Floating Rate Bonds or Index-Linked Bonds), (iv) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system, which, while any Bonds are admitted to the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange, shall be London. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

- (i) Subject to the provisions of the relevant Final Terms, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmaturing Coupons attached), unmaturing Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.
- (ii) Upon the date for redemption of any Bond, any unmaturing Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such

due date (whether or not attached) shall become void and no payment shall be made in respect of them.

- (iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) *Payment Business Days*

- (i) *Bearer Bonds:* If the due date for payment of any amount in respect of any Bearer Bond or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (ii) *Registered Bonds:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Bond is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 9(g) arriving after the due date for payment or being lost in the mail.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10. **Taxation**

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, any Paying Agent, the Registrar or the Bond Trustee) free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or charges of whatsoever nature unless the Issuer, any Paying Agent or the Registrar or, where applicable, the Bond Trustee is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or charges of whatsoever nature. In that event, the Issuer, such Paying Agent, the Registrar or the Bond Trustee, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, any Paying Agent, the Registrar or the Bond Trustee will be obliged to make any

additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, any Paying Agent, the Registrar or the Bond Trustee may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

11. **Bond Events of Default**

(a) *Bond Event of Default*

Each and any of the following events shall be treated as a “**Bond Event of Default**”:

- (i) *Non payment:* default is made by the Issuer for a period of 3 Business Days in the payment of interest or principal on any Tranche of the Bonds when due in accordance with these Conditions;
- (ii) *Breach of other obligations:* default is made by the Issuer in the performance or observance of any other obligation, condition, provision, representation or warranty binding upon or made by it under the Bonds or the Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement and other than any obligation whose breach would give rise to the Bond Event of Default provided for in Condition 11(a)(i) (*Non Payment*)) and, except where in the opinion of the Bond Trustee the such default is not capable of remedy, such default continues for a period of 30 Business Days;
- (iii) *Insolvency Event:* an Insolvency Event occurs in relation to the Issuer; or
- (iv) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement).

(b) *Delivery of Bond Enforcement Notice*

If any Bond Event of Default occurs and is continuing, the Bond Trustee (i) may, at any time, at its discretion and (ii) shall, upon being so directed in writing by the Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt or if directed by an Extraordinary Resolution, deliver a Bond Enforcement Notice to the Issuer provided that, in either case, it is indemnified and/or secured and/or prefunded to its satisfaction.

(c) *Confirmation of no Bond Event of Default*

The Issuer, pursuant to the terms of the Bond Trust Deed, shall provide written confirmation to the Bond Trustee, on an annual basis (and at any other time on request of the Bond Trustee), that no Bond Event of Default has occurred.

(d) *Consequences of the delivery of a Bond Enforcement Notice*

Upon delivery of a Bond Enforcement Notice in accordance with Condition 11(b) (*Delivery of Bond Enforcement Notice*): (i) all Tranches of the Bonds then outstanding shall immediately become due and repayable at their respective Principal Amount Outstanding (in the case of Index-Linked Bonds, as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Index-Linked Bonds, as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*) and (ii) the Issuer Security shall become enforceable by the Issuer Security Trustee in accordance with the Issuer Deed of Charge.

- (e) **“Issuer Qualifying Creditors”** means in respect of Issuer Qualifying Debt, for so long as any Bonds remain outstanding, the holders of the Bonds, and each Pari Passu Issuer Hedge Counterparty that is party to a Issuer Hedging Agreement in respect of the Bonds.
- (f) **“Issuer Qualifying Debt”** means for so long as any Bonds remain outstanding, the sum of (i) the Principal Amount Outstanding of the Bonds and (ii) the mark to market value of all transactions arising under Issuer Hedging Agreements in respect of the Bonds to the extent that such value represents an amount which would be payable to the relevant Pari Passu Issuer Hedge Counterparties if an early termination date was designated at relevant date in respect of such transactions as determined by the relevant Pari Passu Issuer Hedge Counterparty in accordance with the Issuer Hedging Agreements, as certified by the relevant Pari Passu Issuer Hedge Counterparty to the Bond Trustee.

12. **Enforcement Against Issuer**

No Bondholder, Receiptholder, Couponholder or other Issuer Secured Creditor is entitled to take any action against the Issuer or any other member of the Holdco Group or against any assets of the Issuer or any other member of the Holdco Group to enforce its rights in respect of the Bonds or to enforce any of the Issuer Security unless the Bond Trustee or, as the case may be, the Issuer Security Trustee, having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Bond Trustee shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing, upon being so directed in writing by the Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt, enforce the Issuer Security in accordance with the Issuer Deed of Charge.

None of the Bond Trustee, the Issuer Security Trustee, the Bondholders, the Receiptholders, the Couponholders or the other Issuer Secured Creditors may institute against, or join any person in instituting against, the Issuer or any other member of the Holdco Group any bankruptcy, winding up, re organisation, arrangement, insolvency or liquidation proceeding (except for the taking of any enforcement action under the Issuer Deed of Charge including the appointment of a Receiver pursuant to the terms of the Issuer Deed of Charge) or other proceeding under any similar law for so long as any Bonds are outstanding or for two years and a day after the latest Final Maturity Date on which any Bond of any Tranche is due to mature.

13. **Prescription**

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Bond Relevant Date (as defined in Condition 22 (*Definitions*)) in respect thereof.

14. **Replacement of Bonds, Coupons, Receipts and Talons**

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Passing of resolutions by Bondholders, Modification, Waiver and Substitution**

(a) *Passing of resolutions by Bondholders, Modifications and Waiver*

No physical meetings will be required in respect of any Voting Matter and a Bondholder may only Vote in respect of any Voting Matter by means of a Block Voting Instruction. However, the Bond Trustee may, without the consent of the Issuer or the Bondholders, prescribe such further regulations regarding voting by the Bondholders in respect of all Voting Matters except HS1 STID Proposals as the Bond Trustee may in its sole discretion think fit, including the calling of one or more meetings of Bondholders in order to approve any resolution to be put to the Bondholders where the Bond Trustee, in its sole discretion, considers it to be appropriate to hold a meeting.

In respect of any HS1 STID Proposal:

- (i) each Bondholder may only vote on such HS1 STID Proposal by way of Block Voting Instruction and each Bondholder shall have one vote in respect of each £1 (or its equivalent expressed in sterling on the basis of the Exchange Rate) of the Outstanding Principal Amount of Bonds held or represented by it;
- (ii) each Bondholder must vote on or prior to the time specified by the Principal Paying Agent or, as the case may be, Registrar and/or relevant clearing system in order to enable the Principal Paying Agent or, as the case may be, a Paying Agent or the Registrar to issue a Block Voting Instruction on the Voting Date, provided that if a Bondholder does not vote in sufficient time to allow the Principal Paying Agent, or, as the case may be, a Paying Agent or the Registrar to issue a Block Voting Instruction in respect of its Bonds prior to the end of the Voting Period, the Votes of such Bondholder may not be counted;
- (iii) in respect of such HS1 STID Proposal, the Bond Trustee shall vote as the Secured Creditor Representative of the Bondholders in respect of each Tranche of Bonds then outstanding by notifying the HS1 Security Trustee, the Issuer and the Issuer Security Trustee, in accordance with the STID promptly following the receipt by it of such Votes (and in any case not later than the Business Day following receipt of each such Vote), of each Vote comprised in a Block Voting Instruction received by it from a Paying Agent or the Registrar on or prior to the Voting Date (or, if earlier the relevant Voting Closure Date); and
- (iv) such HS1 STID Proposal duly approved by the Qualifying HS1 Secured Creditors in accordance with the STID shall be binding on all Bondholders, Receiptholders and Couponholders (subject as provided in the STID). The Bond Trustee shall, following receipt of the result of any vote in respect of such HS1 STID Proposal, promptly notify the Bondholders in accordance with Condition 17 (*Notices*).

In respect of (a) a STID Proposal that gives rise to an Entrenched Right in respect of which the Issuer is an Affected HS1 Secured Creditor (an “**Entrenched Right STID Proposal**”); and (b) any Voting Matter which is not a HS1 STID Proposal (an “**Other Voting Matter**”):

- (i) the Issuer or the Bond Trustee may at any time, and the Bond Trustee must if (a) it receives an Entrenched Right STID Proposal; or (b) directed to do so by Bondholders representing not less than 10% of the Principal Amount Outstanding of the Bonds, request that such Voting Matter be considered by the Bondholders. The Issuer or the Bond Trustee shall send a notice (a “**Voting Notice**”) to the Bondholders of each affected Tranche of Bonds, specifying the Voting Date (which shall initially be set with at least 21 days’ notice) and Voting Matter(s) including the terms of any resolution to be proposed;

- (ii) each Bondholder shall have one vote in respect of each £1 (or its equivalent expressed in Sterling on the basis of the Exchange Rate) of Principal Amount Outstanding of the Bonds held or represented by it;
- (iii) each Bondholder must vote prior to the close of business (London time) 24 hours prior to the Voting Date so that his votes can be included in a Block Voting Instruction which needs to be deposited at least 24 hours before the Voting Date; and
- (iv) on or before the Business Day immediately preceding the last day of the Decision Period, the Bond Trustee shall notify the HS1 Security Trustee, the Issuer and the Issuer Security Trustee in writing of whether or not the holders of each affected Tranche of Bonds then outstanding have passed an Extraordinary Resolution approving the relevant STID Proposal.

In order for an Extraordinary Resolution to be approved by the Bondholders (subject as provided below), one or more Bondholders representing 50 per cent. or more of the aggregate Principal Amount Outstanding of the Bonds for the time being outstanding, who for the time being are entitled to receive notice of an Other Voting Matter, need to participate in any initial Vote, provided that in respect of any Voting Matter the business of which includes any of the following matters (each of which, a “**Basic Terms Modification**” and which shall only be capable of being effected after having been approved by an Extraordinary Resolution) namely:

- (i) to change any date fixed for payment of principal or interest in respect of any Tranche of Bonds, to reduce or cancel the amount of principal or interest payable on any date in respect of any Tranche of Bonds or (other than as specified in Condition 8 (*Redemption, Purchase and Cancellation*)) to alter the method of calculating the amount of any payment in respect of any Tranche of Bonds on redemption or maturity;
- (ii) to effect the exchange, conversion or substitution of any Tranche of Bonds for, or their conversion into, shares, notes or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (iii) to change the currency in which amounts due in respect of any Tranche of Bonds are payable other than pursuant to redenomination into euro pursuant to Condition 19 (*European Economic and Monetary Union*);
- (iv) to alter any of the Issuer Payment Priorities insofar as such alteration would affect any Tranche of Bonds;
- (v) to change the quorum required or the majority required to pass an Extraordinary Resolution; or
- (vi) to amend this definition or this Condition 15(a),

one or more Bondholders representing 75 per cent. or more of the aggregate Principal Amount Outstanding of Bonds for the time being outstanding, who, for the time being are entitled to receive notice of such an Other Voting Matter, need to participate in any initial Vote.

The above percentage requirements of Bondholders who need to participate in a particular Other Voting Matter are referred to herein as the “**Extraordinary Quorum Requirements**”.

If, on a Voting Date, the Extraordinary Quorum Requirements are not satisfied for the transaction of any particular business then, subject and without prejudice to the transaction of the business (if any) for which the Extraordinary Quorum Requirements are satisfied, such Voting Date shall be postponed to the same day in the next week (or if such day is a public holiday the next succeeding business day) (an “**Adjourned Voting Date**”) except where an Extraordinary Resolution is to be proposed in which case the Adjourned Voting Date shall be

a day (being a business day) during the period, being not less than 7 clear days nor more than 14 clear days, subsequent to such Voting Date, and approved by the Bond Trustee. On any Adjourned Voting Date, one or more Votes (whatever the Principal Amount Outstanding of the Bonds then outstanding so held or represented by them) shall (subject as provided below) form a quorum and shall have the power to pass any Extraordinary Resolution or Ordinary Resolution and to decide upon all matters which could properly have been dealt with through the original Vote had the requisite Extraordinary Quorum Requirements been met, provided that on any Adjourned Voting Date the Extraordinary Quorum Requirements for the transaction of business comprising any of the matters specified to be a Basic Terms Modification shall be at least 25 per cent. of the aggregate Principal Amount Outstanding of the Bonds for the time being outstanding, who for the time being are entitled to receive notice of an Other Voting Matter, need to participate in such Vote.

Notice of any Adjourned Voting Date at which an Extraordinary Resolution is to be voted upon shall be given in the same manner as a Voting Notice but as if 5 days' notice were substituted for 21 days' notice discussed above (in respect of an Other Voting Matter) and such notice shall state the relevant quorum. Subject as aforesaid it shall not be necessary to give any notice of an Adjourned Voting Date.

Any resolution approved by the Bondholders in accordance with the terms hereof shall be binding upon all the Bondholders whether or not voting and upon all relevant Couponholders and each of them shall be bound to give effect thereto accordingly and the approval of any such resolution shall be conclusive evidence that the circumstances justify the approval thereof. Notice of the result of the voting on any resolution duly approved by the Bondholders shall be published in accordance with Condition 17 (*Notices*) by the Principal Paying Agent or the Registrar, as applicable, on behalf of the Issuer within 7 days of such result being known, provided that the non-publication of such notice shall not invalidate such result.

If and whenever the Issuer shall have issued and have outstanding more than one Tranche of Bonds the foregoing provisions of this Condition shall have effect subject to the following modifications:

- (i) a resolution which in the opinion of the Bond Trustee affects only one Tranche of Bonds shall be deemed to have been duly approved if approved through a separate Vote of the holders of that Tranche of Bonds;
- (ii) a resolution which in the opinion of the Bond Trustee affects holders of more than one Tranche of Bonds but does not give rise to a conflict of interest between the holders of any of the Tranches of Bonds so affected shall be deemed to have been duly approved if approved through a separate Vote of the holders of all the Tranches of the Bonds so affected;
- (iii) a resolution which in the opinion of the Bond Trustee affects more than one Tranche of Bonds and gives or may give rise to a conflict of interest between the holders of one Tranche of Bonds so affected and the holders of another Tranche of Bonds shall be deemed to have been duly approved only if approved through separate Votes of the holders of each Tranche of Bonds;
- (iv) in respect of all such approvals all the preceding provisions of this Condition shall apply *mutatis mutandis* as though references therein to Bonds and Bondholders were references to the Tranche of Bonds in question or to the holders of such Tranche of Bonds, as the case may be;

- (v) no Extraordinary Resolution involving a Basic Terms Modification (other than where such Basic Terms Modification is of the kind specified in limb (i) of the definition thereof and where such Basic Terms Modification is passed by the holders of all affected Tranche of Bonds in accordance with (vi) below) that is approved by the holders of one Tranche of Bonds shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Tranches of Bonds (to the extent that there are Bonds outstanding in each such other Tranche); and
- (vi) an Extraordinary Resolution involving a Basic Terms Modification of the kind specified in limb (i) of the definition thereof may be approved by the holders of all Tranches of Bonds adversely affected by such Basic Terms Modification (but need not be approved by the holders of Tranches of Bonds which are not affected thereby).

(b) *Modification, waiver and substitution*

As set out in the Bond Trust Deed and the Issuer Deed of Charge (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders or (subject as provided below) any other Issuer Secured Creditor, concur with the Issuer or any other relevant parties or direct the Issuer Security Trustee to concur with the Issuer or any other relevant parties in making (i) any modification to the Bond Trust Deed, the Conditions, the Bonds, the Receipts, the Coupons or the Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which it holds security if in the opinion of the Bond Trustee such modification is made to correct a manifest error, or an error in respect of which an English court would reasonably be expected to make a rectification order, or is of a formal, minor, administrative or technical nature or (ii) any modification (other than in respect of a Basic Terms Modification) to the Bond Trust Deed, the Conditions, the Bonds, the Receipts, the Coupons or any Issuer Transaction Document (other than the Dealership Agreement or any Subscription Agreement) (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which it holds security if the Bond Trustee or the Issuer Security Trustee (as the case may be) is of the opinion that such modification is not materially prejudicial to the interests of the holders of the Bonds then outstanding (where “materially prejudicial” means that such modification, consent or waiver would not have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor) provided that to the extent such modification under (ii) above relates to an Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent.

As more fully set out in the Bond Trust Deed and the Issuer Deed of Charge (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders (subject as provided below) or any other Issuer Secured Creditor and without prejudice to its rights in respect of any subsequent breach or Bond Event of Default, from time to time and at any time but only if and in so far as in its opinion the interests of the holders of the Bonds then outstanding shall not be materially prejudiced thereby (where “materially prejudiced” means that such waiver or authorisation would have a material adverse effect on the ability of the Issuer to pay any amounts of principal or interest in respect of the Bonds on the relevant due date for payment therefor), waive or authorise (or instruct the Issuer Security Trustee to waive or authorise) any breach or proposed breach by the Issuer of any of the covenants or provisions contained in the Conditions or any Issuer Transaction Document (other than a Common Document, the Dealership Agreement or any Subscription Agreement) to which it is a party or in respect of which it holds security or determine that any event which would otherwise constitute a Bond Event of Default shall not be treated as such for the purposes of the Bond Trust Deed provided that to the extent such event, matter or thing relates to a Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent and provided further that the Bond Trustee shall not exercise such powers in contravention of any express direction given by an Extraordinary

Resolution (or of a request in writing made by, holders of not less than one quarter in aggregate of the principal amount of the Bonds then outstanding) but no such direction or request shall affect any waiver or authorisation previously given or made or so as to authorise or waive any such proposed breach or breach relating to any Basic Terms Modification.

Any such modification, waiver or authorisation shall be binding on the Bondholders of each relevant Tranche and the holders of all relevant Receipts and Coupons and the other Issuer Secured Creditors and, unless the Bond Trustee agrees otherwise, notice thereof shall be given by the Issuer to the Bondholders as soon as practicable thereafter.

Notwithstanding that none of the Bond Trustee, the Bondholders or the other Issuer Secured Creditors may have any right of recourse against the Rating Agencies in respect of any Ratings Confirmation given by them and relied upon by the Bond Trustee, the Bond Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Bonds or any Issuer Transaction Document, that such exercise will not be materially prejudicial to the interests of the Bondholders if any of the Rating Agencies has provided a Ratings Confirmation. Without prejudice to the foregoing, the Bondholders are deemed to agree for the benefit of the Rating Agencies only that a credit rating is, however, an assessment of credit and does not address other matters that may be of relevance to Bondholders. The Bond Trustee and the Bondholders agree and acknowledge that being entitled to rely on the fact that any of the Rating Agencies has delivered a Ratings Confirmation does not impose or extend any actual or contingent liability for such Rating Agency to the Bond Trustee, the Bondholders, any other Issuer Secured Creditor or any other person or create any legal relations between such Rating Agency and the Bond Trustee, the Bondholders, any other Issuer Secured Creditor or any other person whether by way of contract or otherwise.

As more fully set forth in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders or any other Issuer Secured Creditor, also agree with the Issuer to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds.

16. **Bond Trustee Protections**

(a) *Trustee considerations*

Subject to Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Issuer Transaction Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Bonds then outstanding provided that, if, in the Bond Trustee's opinion, there is a conflict of interest between the holders of two or more Series or Tranches of Bonds, it shall have regard to the interests of the holders of the Series or Tranche (as the case may be) then outstanding with the greatest Principal Amount Outstanding and will not have regard to the consequences of such exercise for the holders of other Series or Tranches of Bonds or, in any event, have regard to the consequences for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer, nor shall any Bondholders be entitled to claim from the Issuer, the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of rights by Bond Trustee*

Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed, the Conditions, and any Issuer Transaction Documents (other than the Dealership Agreement or any Subscription Agreement) in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (i) (a) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the Bonds outstanding or (b) been so directed by an Extraordinary Resolution and (ii) been indemnified and/or furnished with security or prefunding to its satisfaction.

17. Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given only by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or any other relevant clearing system as specified in the relevant Final Terms for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

The Bond Trustee will provide each Rating Agency, at its request, from time to time and provided that the Bond Trustee will not contravene any law or regulation in so doing, with all notices, written information and reports that the Bond Trustee makes available to the Bondholders except to the extent that such notices, information or reports, contain information confidential to third parties.

18. Indemnification Of The Bond Trustee and the Issuer Security Trustee

(a) *Indemnification of the Bond Trustee*

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Issuer and/or any other person unless indemnified and/or secured and/or prefunded to its satisfaction. The Issuer Deed of Charge contains provisions for indemnification of the Issuer Security Trustee and for its relief from responsibility, including provisions relieving it from enforcing the Issuer Security unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

Each of the Bond Trustee and the Issuer Security Trustee or any of their affiliates (as defined in Condition 7 (*Indexation*)) are entitled to enter into business transactions with the Issuer, the other Issuer Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom. Save as otherwise provided in these Conditions or any Issuer Transaction Document the Bond Trustee will only be required to take any action under or in relation to, or to enforce or protect the Issuer Security, or a document referred to

therein, if so directed by an Extraordinary Resolution of the holders of the then outstanding Bonds or if so requested in writing by holders of at least 25 per cent. in nominal amount of the holders of any Tranche of the then outstanding Bonds and in all cases if indemnified and/or secured and/or prefunded to its satisfaction.

(b) *Directions, Duties and Liabilities*

The Bond Trustee, in the absence of its own wilful default, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Bondholders shall not in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non exercise of any consent, waiver, power, trust, authority or discretion vested in the Bond Trustee pursuant to these Conditions, any Issuer Transaction Document or any ancillary document.

19. **European Economic and Monetary Union**

(a) *Notice of redenomination*

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the UK becomes a Participating Member State.

(b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Bonds denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

(ii) if Bonds have been issued in definitive form:

(A) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to

exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and

- (C) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;
 - (iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
 - (iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.
- (c) *Interest*

Following redenomination of the Bonds pursuant to this Condition 19, where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01.

20. **Limited Recourse**

Each of the Issuer Secured Creditors agrees that notwithstanding any other provision of the Issuer Transaction Documents, all obligations of the Issuer to the Issuer Secured Creditors, including its obligations under the Bonds and the Issuer Transaction Documents are limited in recourse as set out below:

- (a) it will have a claim only in respect of the Issuer Charged Property and will not have any claims by operation of law or otherwise, against or recourse to any of the other assets or the contributed capital of the Issuer;
- (b) the aggregate amount of all sums due and payable to the Bondholders in respect of the Issuer's obligations to such Bondholders shall reduce by the amount by which the aggregate amount of sums due and payable to the Bondholders exceeds the aggregate amounts received, realised or otherwise recovered by or for the account of the Issuer in respect of the Issuer Charged Property (after payment of any sums which are payable in accordance with the Issuer Payment Priorities in priority to or *pari passu* with sums payable to such Bondholders), whether pursuant to enforcement of the Issuer Security or otherwise; and
- (c) upon the Bond Trustee giving written notice to the Bondholders that it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Issuer Charged Property (whether arising from an enforcement of the Issuer Security or otherwise) which would be available to pay amounts outstanding under the Issuer Transaction Documents and the Bonds, the Bondholders shall have no further claim against the Issuer in respect of any such unpaid amounts and such unpaid amounts shall be discharged in full.

21. **Miscellaneous**

- (a) *Governing Law*

The Bond Trust Deed, the Issuer Deed of Charge, the Bonds, the Coupons, the Receipts, the Talons (if any) and the other Issuer Transaction Documents are, and all non-contractual or other obligations arising from or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bond Trust Deed, the Issuer Deed of Charge, the Bonds, the Coupons, the Receipts, the Talons and the other Issuer Transaction Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) and/or the Issuer Transaction Documents may be brought in such courts. The Issuer has in each of the Issuer Transaction Documents to which it is a party irrevocably submitted to the jurisdiction of such courts.

(c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(d) *Rights Against the Issuer*

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

(e) *Clearing System Accountholders*

References in the Conditions of the Bonds to “**Bondholder**” are references to the bearer of the relevant Bearer Global Bond or the registered holder of the Regulation S Global Bond.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer, to such Accountholder and in relation to all other rights arising under the Global Bond. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond, Accountholders shall have no claim directly against the Issuer.

22. **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"Block Voting Instruction" means:

- (a) in relation to voting by the holders of Bearer Bonds:
- (i) a document in the English language issued by a Paying Agent;
 - (ii) certifying that the Deposited Bonds have been deposited with such Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system and will not be released until the earlier of:
 - (A) close of business (London time) on the Voting Date; and
 - (B) the surrender to such Paying Agent, not less than 24 hours before the Voting Date of the receipt for the Deposited Bonds and notification thereof by such Paying Agent to the Bond Trustee;
 - (iii) certifying that the depositor of each Deposited Bond or a duly authorised person on its behalf has instructed the relevant Paying Agent that the Votes attributable to such Deposited Bond are to be cast in a particular way on a Voting Matter and that, until the end of the Voting Period, such instructions may not be amended or revoked;
 - (iv) listing the aggregate principal amount and (if in definitive form) the serial numbers of the Deposited Bonds, distinguishing between those in respect of which instructions have been given to Vote for, or against, such Voting Matter; and
 - (v) authorising the Bond Trustee to vote in respect of the Deposited Bonds in connection with such Voting Matter in accordance with such instructions and the provisions of the Bond Trust Deed.
- (b) in relation to voting by the holders of Registered Bonds:
- (i) a document in the English language issued by the Registrar or the Principal Paying Agent;
 - (ii) certifying:
 - (A) (where the Registered Bonds are represented by a Global Bond) that certain specified Registered Bonds (each a "**Blocked Bond**") have been blocked in an account with a clearing system and will not be released until close of business (London time) on the Voting Date and that the holder of each Blocked Bond or a duly authorised person on its behalf has instructed the Registrar that the Votes attributable to such Blocked Bond are to be cast in a particular way on a Voting Matter; or
 - (B) (where the Registered Bonds are represented by Registered Definitive Bonds) that each registered holder of certain specified Registered Bonds (each a "**Relevant Bond**") or a duly authorised person on its behalf has instructed the Registrar that that Votes attributable to each Relevant Bond held by it are to be cast in a particular way on such Voting Matter; and
- in each case that, until the end of the Voting Period, such instructions may not be amended or revoked;
- (iii) listing the aggregate principal amount of the Blocked Bonds and the Relevant Bonds, distinguishing between those in respect of which instructions have been given to Vote for, or against, such Voting Matter; and

- (iv) authorising the Bond Trustee to vote in respect of the Blocked Bonds and the Relevant Bonds in connection with such Voting Matter in accordance with such instructions and the provisions of the Bond Trust Deed.

“Business Day” means:

- (a) in relation to any sum payable in sterling, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange currency deposits in London);
- (b) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms;
- (c) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments, in the principal financial centre of the Relevant Currency (which in the case of a payment in U.S. Dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms; and
- (d) otherwise, a day (other than a Saturday or Sunday) on which banks are open for general business in London;

“Business Day Convention” means the business day convention specified in the Final Terms;

“Bond Relevant Date” means, in respect of any Tranche of the Bonds, the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Index-Linked Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

“Calculation Amount” means the amount specified as such in the relevant Final Terms;

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the **“Calculation Period”**):

- (a) if **“Actual/Actual (ICMA)”** is specified:
 - (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (ii) if the Calculation Period is longer than one Determination Period, the sum of:
 - (A) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (B) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means, the date specified as such in the Final Terms or, if none is so specified the Interest Payment Date;

- (b) if **“Actual/365”** or **“Actual/Actual”** is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366, and (2) the actual number of days in that portion of the Calculation Period falling in a non leap year divided by 365);
- (c) if **“Actual/365 (Fixed)”** is specified, the actual number of days in the Calculation Period divided by 365;
- (d) if **“Actual/360”** is specified, the actual number of days in the Calculation Period divided by 360;
- (e) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months (unless (1) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30 day month, or (2) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month)); and
- (f) if **“30E/360”** or **“Eurobond Basis”** is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the last day of such period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

“Deposited Bond” means certain specified Bearer Bonds which have been deposited with a Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system, for the purposes of the issuance of a Block Voting Instruction.

“euro” means the lawful currency of the Participating Member States;

“Final Maturity Date” means the date specified in the relevant Final Terms as the final date on which the principal amount of the Bond is due and payable;

“HS1 STID Proposal” means a STID Proposal other than an Entrenched Right STID Proposal;

“Interest Commencement Date” means the Issue Date or such other date as may be specified in the relevant Final Terms;

“Interest Determination Date” means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the specified

currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined above) specified in the relevant Final Terms);

“Interest Payment Date” means the date(s) specified as such in the relevant Final Terms;

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“Interest Rate” means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms;

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds as published by the International Swaps and Derivatives Association, Inc.);

“Issue Date” means the date specified as such in the relevant Final Terms;

“Margin” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms;

“Page” means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service (**“Reuters”**)) as may be specified in the relevant Final Terms, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

“Participating Member State” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities (as amended), and **“Participating Member States”** means all of them;

“Payment Business Day” means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which the TARGET2 system is open and a day on which dealings in foreign currencies may be carried on in each (if any) Relevant Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies;
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Relevant Financial Centre;

“Principal Amount Outstanding” means:

- (a) in relation to a Bond (other than a Zero Coupon Bond) or a Tranche, the original face value thereof less any repayment of principal made to the Holder(s) thereof in respect of such Bond or Tranche; and
- (b) in relation to a Zero Coupon Bond, where the Principal Amount Outstanding of any Zero Coupon Bond is required to be calculated on any date other than the Scheduled Redemption Date, the Principal Amount Outstanding shall be calculated in accordance with the following formula:

“The aggregate nominal amount of the relevant Tranche of Zero Coupon Bonds on the Issue Date thereof * (1 + Accrual Yield) ^ N”

Where:

“N” = number of years between the Issue Date and the date on which the relevant calculation is required to be made; and

“**Accrual Yield**” shall have the meaning given to it in the relevant Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of Condition 8(h) (*Early redemption of Zero Coupon Bonds*) or, if none is so specified, a Day Count Fraction of 30/360.

“**Redemption Amount**” means the amount provided under Condition 8(d) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms;

“**Reference Banks**” means the institutions specified as such in the Final Terms or, if none is so specified, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

“**Relevant Currency**” means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

“**Relevant Financial Centre**” means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

“**Relevant Rate**” means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms);

“**Relevant Time**” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

“**Representative Amount**” means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

“**Scheduled Redemption Date**” has the meaning given to it in the applicable Final Terms;

“**Specified Currency**” has the meaning given to it in the applicable Final Terms;

“**Specified Denomination**” has the meaning given to it in the applicable Final Terms;

“**Specified Duration**” means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Period;

“**Step-Up Fixed Fee Rate**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or, if no such rate is specified, zero;

“**Step-Up Floating Fee Rate**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or, if no such rate is specified, zero;

“**Stock Exchange**” means the London Stock Exchange plc or any other or further stock exchange(s) on which any bonds from time to time may be listed and references to the *relevant Stock Exchange* shall, in relation to any Bonds, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed;

“**sub-unit**” means in the case of any currency, the lowest amount of such currency that was available as legal tender in the country of such currency;

“**TARGET Settlement Day**” means any day on which the TARGET2 system is open; and

“**TARGET2 system**” means the Trans European Automated Real Time Gross Settlement Express Transfer system (TARGET or TARGET2).

“**Vote**” means an instruction from a Bondholder to the Bond Trustee to vote on its behalf in respect of a Voting Matter, such instructions to be given in accordance with the Bond Trust Deed;

“**Voting Date**” means:

- (a) in respect of a STID Proposal:
 - (i) in respect of a Decision Period, the Business Day immediately preceding the last day of such Decision Period; and
 - (ii) in respect of a Decision Period that is extended in respect of a Ordinary Voting Matter or an Extraordinary Voting Matter in accordance with the relevant provisions of the STID, means the last date of such extended Decision Period; and
- (b) in respect of any other Voting Matter, the date set out in the relevant Voting Notice.

“**Voting Matter**” means any matter which is required to be approved by the Bondholders including, without limitation:

- (a) any HS1 STID Proposal which requires the approval of the Bondholders;
- (b) any direction to be given by the Bondholders to the Bond Trustee (in its capacity as the Secured Creditor Representative of the Bondholders) to challenge the determination of the voting category made by HS1 in a HS1 STID Proposal, and/or (where the Issuer is an Affected HS1 Secured Creditor) whether a STID Proposal gives rise to an Entrenched Right;

- (c) any directions required or entitled to be given by Bondholders pursuant to the Transaction Documents; and
- (d) any other matter which requires the approval of or consent of the Bondholders.

“Voting Period” means the period ending on the Voting Date or, if earlier, the date of the Voting Notice issued by the HS1 Security Trustee in respect of such Voting Matter (if applicable).

FORMS OF THE BONDS

Bonds may, subject to all applicable legal and regulatory requirements, be issued in Series comprising either Bearer Bonds or Registered Bonds, as specified in the relevant Final Terms. The Bonds may comprise one or more Tranches.

Bearer Bonds

Each Tranche of Bonds initially issued in bearer form will be issued either as a Temporary Global Bond, without Receipts, Coupons or Talons attached, or a Permanent Global Bond, without Receipts, Coupons or Talons attached, in each case as specified in the relevant Final Terms. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a “**Bearer Global Bond**”) which is not intended to be issued in new global note (“**NGN**”) form, as specified in the relevant Final Terms, will be delivered on or prior to the Issue Date of the relevant Tranche of the Bonds to a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system on or about the Issue Date of the relevant Tranche. Each Bearer Global Bond which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be delivered on or prior to the Issue Date of the relevant Tranche of the Bonds to a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Where the Bearer Global Bonds issued in respect of any Tranche are in NGN form, Euroclear and Clearstream, Luxembourg will be notified by or on behalf of the Issuer whether or not such Bearer Global Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Bonds are to be so held does not necessarily mean that the Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

In the case of each Tranche of Bonds in bearer form the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Bonds or, if the Bonds do not have a maturity of more than 1 year, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Final Terms specify the form of Bonds as being represented by “Temporary Global Bond exchangeable for a Permanent Global Bond”, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Receipts, Coupons or Talons attached, not earlier than 40 days after the Issue Date of the relevant Tranche of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in a Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Principal Paying Agent; and
- (ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Tranche of Bonds with the Tranche of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form (each, a “**Definitive Bond**”):

- (i) if the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available; or
- (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds in definitive form and a certificate to such effect from two Directors of the Issuer has been given to the Bond Trustee.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the specified office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specify the form of Bonds as being “Temporary Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Tranche of the Bonds.

If the relevant Final Terms specifies the form of Bonds as being “Temporary Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Tranche of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the specified office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

If the relevant Final Terms specify the form of Bonds as being “Temporary Global Bond exchangeable for Definitive Bonds”, such Temporary Global Bonds and such Definitive Bonds may only be issued and traded in denominations equal to the Specified Denomination and integral multiples thereof.

Permanent Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being “Permanent Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA C Rules are applicable or that

TEFRA does not apply, then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- (i) if the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available; or
- (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds in definitive form and a certificate to such effect from two Directors of the Issuer has been given to the Bond Trustee.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the specified office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denominations(s) only. Bondholders who hold Bonds in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant date of exchange, a principal amount of Bonds such that their holding is an integral multiple of a Specified Denomination.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under “*Terms and Conditions of the Bonds*” above and the provisions of the relevant Final Terms which complete those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under “*Provisions Relating to the Bonds while in Global Form*” below.

Legend concerning United States persons

Global Bonds and Definitive Bonds having a maturity of more than 1 year and any Receipts, Coupons and Talons appertaining thereto will bear a legend to the following effect unless the relevant Final Terms specifies that the TEFRA C Rules are applicable or that TEFRA does not apply:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in such legend provide that a United States person who holds a Bond, Receipt, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Receipt, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Bonds issued in bearer form will only be transferable in accordance with the procedures of the Euroclear or Clearstream, Luxembourg and/or any other relevant clearing system (as applicable).

Registered Bonds

Any Registered Bond will be represented on issue by one or more Regulation S Global Bonds of each Tranche.

Each Regulation S Global Bond will be deposited on or about the Issue Date with either: (a) a common depository for Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system, in the case of a Regulation S Global Bond which will not be held under the new safekeeping structure (“**New Safekeeping Structure**” or “**NSS**”), and registered in the name or a nominee of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system; or (b) a common safekeeper for Euroclear and/or Clearstream Luxembourg, in the case of a Regulation S Global Bond to be held under the New Safekeeping Structure, and registered in the name of a nominee of the common safekeeper.

Where the Regulation S Global Bonds issued in respect of any Tranche are held under the NSS, Euroclear and Clearstream, Luxembourg will be notified by or on behalf of the Issuer whether or not such Regulation S Global Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Regulation S Global Bonds are to be so held does not necessarily mean that the Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for NSSs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Regulation S Global Bond may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See “*Book-Entry Clearance Procedure*”.

Beneficial interests in Regulation S Global Bonds will be subject to certain restrictions on transfer set out in this Prospectus, in the relevant Final Terms, and in the Agency Agreement, and such Regulation S Global Bonds will bear the applicable legends regarding the restrictions set out in the relevant Final Terms.

Except in the limited circumstances described below, owners of beneficial interests in Regulation S Global Bonds will not be entitled to receive physical delivery of certificated Bonds.

Exchange for Registered Definitive Bonds

Each Regulation S Global Bond will be exchangeable, free of charge to the holder, on or after its Individual Exchange Date (as defined below), in whole but not in part, for definitive bonds in fully registered form (“**Registered Definitive Bonds**”):

- (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available; and
- (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds in definitive form and a certificate to such effect from two Directors of the Issuer has been given to the Bond Trustee.

The Registrar will not register the transfer of, or exchange of interests in, a Regulation S Global Bond for Registered Definitive Bonds for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the relevant Tranche of Bonds.

If only one of the Regulation S Global Bonds (the “**Exchanged Regulation S Global Bond**”) becomes exchangeable for Registered Definitive Bonds in accordance with the above paragraphs, transfers of Bonds may not take place between, on the one hand, persons holding Registered Definitive Bonds

issued in exchange for beneficial interests in the Exchanged Regulation S Global Bond and on the other hand, persons wishing to purchase beneficial interests in the other Regulation S Global Bond.

“**Individual Exchange Date**” means a day falling not less than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and any Transfer Agent is located.

In such circumstances, the relevant Regulation S Global Bond shall be exchanged in full for Registered Definitive Bonds and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Registered Bonds to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Bondholders. A person having an interest in a Regulation S Global Bond must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Registered Definitive Bonds.

Legends and Transfers

The holder of a Registered Definitive Bond may transfer the Bonds represented thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Registered Definitive Bond or upon specific request for removal of the legend on a Registered Definitive Bond, the Issuer will deliver only Registered Definitive Bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Provisions Relating to the Bonds while in Global Form

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- (i) *Cancellation:* Cancellation of any Bond represented by a Global Bond that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond.
- (ii) *Notices:* So long as any Bonds are represented by a Global Bond and such Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant clearing system, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or any other relevant clearing system for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions. Such notices shall be deemed to have been received by the Bondholders on the date of delivery to such clearing systems.
- (iii) *Record date:* Each payment in respect of a Regulation S Global Bond will be made to the person shown as the Holder in the Register on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Regulation S Global Bond is being held is open for business.
- (iv) *Payments:* All payments in respect of the Global Bonds which, according to the Conditions, require presentation and/or surrender of a Bond or Coupon, will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Bond to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion

on which a payment of principal or interest is made in respect of the Global Bonds, the Issuer shall procure that the payment is noted in a schedule thereto and the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

- (v) *Payment Business Day*: Notwithstanding the definition of “Payment Business Day” in Condition 22 (*Definitions*), while all the Bonds are represented by a Permanent Bearer Global Bond (or by a Permanent Global Bond and/or a Temporary Global Bond) or a Regulation S Global Bond and the Permanent Bearer Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are), or the Regulation S Global Bond is deposited with a depository or a common depository or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, “Payment Business Day” means:
- (a) if the currency of payment is euro, any day on which the TARGET2 system is open and a day on which dealings in foreign currencies may be carried on in each (if any) Relevant Financial Centre; or
 - (b) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Relevant Financial Centre.
- (vi) *Redemption at the Option of the Issuer*: For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no selection of Bonds to be redeemed will be required under Condition 8(d) (*Optional Redemption*) in the event that the Issuer exercises its option pursuant to Condition 8(d) (*Optional Redemption*) in respect of less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the partial redemption will be effected *pro rata* in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg.

BOOK-ENTRY CLEARANCE PROCEDURE¹

The information set out below has been obtained from Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”). The Issuer accepts responsibility for the accurate reproduction of such information from information published by the Clearing Systems and so far as the Issuer is aware and is able to ascertain from the information published by the Clearing Systems, no facts have been omitted which would render the reproduced information inaccurate or misleading. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.

Euroclear and Clearstream, Luxembourg

Custodial and depository links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of each Series of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Investors may hold their interests in Global Bonds directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

Book-entry ownership

Each Bearer Global Bond will have an ISIN and a common code and will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg or a common safekeeper on behalf of Euroclear and Clearstream, Luxembourg (as applicable). Each Regulation S Global Bond will have an ISIN and a common code and will be registered in the name of a common depository on behalf of Euroclear and Clearstream, Luxembourg or a common safekeeper on behalf of Euroclear and Clearstream, Luxembourg (as applicable).

Payments and relationship of participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Bond represented by a Global Bond must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Bond and in relation to all other rights arising under the Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. The Issuer expects that, upon receipt of any payment in respect of Bonds represented by a Global Bond, the common depository by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Bond as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Bond held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by such Global Bond and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Bond in respect of each amount so paid.

Settlement and transfer of Bonds

Subject to the rules and procedures of each applicable Clearing System, purchases of Bonds held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such

¹ Applicable to any Tranche of Bonds held by Euroclear and/or Clearstream, Luxembourg.

Bonds on the Clearing System's records. The ownership interest of each actual purchaser of each such Bond (the "**Beneficial Owner**") will in turn be recorded on the Direct Participant and Indirect Participant's records. Transfers of ownership interests in Bonds held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial owners will not receive certificates representing their ownership interests in such Bonds, unless and until interests in any Global Bond held within a Clearing System are exchanged for Bearer Definitive Bonds or Registered Definitive Bonds.

PRO FORMA FINAL TERMS

Final Terms dated [●]

High Speed Rail Finance (1) plc

Issue of [Tranche [–[●]] [Aggregate Nominal Amount of Tranche] [Fixed Rate][Floating Rate][Zero-Coupon][Index-Linked][Instalment] Bonds

under the Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated [●] [and the supplemental or drawdown prospectus dated [●] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental/drawdown Prospectus] [is] [are] available for viewing at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from the Specified Office of the Paying Agents.

1	(i)	Issuer	High Speed Rail Finance (1) plc
2	(i)	Series Number	[●]
	(ii)	Tranche Number	[●]
	(iii)	Date on which the Bonds will be considered and form a single series:	[Not Applicable] [The Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with [●] on [the Issue Date /exchange of the Temporary Global Bond for interests in the Permanent Global Bond, as referred to in paragraph 23 below, which is expected to occur on or about [●]].
3		Specified Currency or Currencies:	[●]
4		Aggregate Nominal Amount of Bonds admitted to trading:	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5		Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i)	Specified Denominations	[●][€/\$100,000/\$200,000 and integral multiples of [€/\$1,000] in excess thereof up to and including [€/\$99,000/\$199,000]. No Bonds in definitive form will be issued with a denomination of integral multiples above [€/\$ 99,000/\$199,000].]

	(ii)	Calculation Amount:	[€/£/\$]1,000
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●] [Issue Date] [Not Applicable]
8	(i)	Scheduled Redemption Date:	[Not Applicable][●]
	(ii)	Final Maturity Date:	[●]
9		Instalment Date:	[Not Applicable][●]
10		Interest Basis:	[[●] per cent. Fixed Rate] [[●] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index-Linked Interest]
11		Redemption/Payment Basis:	[Redemption at par] [Index-Linked Redemption] [Instalment]
12		Change of Interest or Redemption/Payment Basis:	[●] [Not Applicable]
13		Put/Call Options:	Issuer Optional Redemption - Condition 8(d) applies
14		[Date [Board] approval for issuance of Bonds obtained:	[●] and [●] respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15		Fixed Rate Bond Provisions:	[Applicable/Not Applicable]
	(i)	Interest Rate:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear on each Interest Payment Date]
	(ii)	Manner in which the Rate of Interest is to be determined after the Scheduled Redemption Date:	[Screen Rate Determination/ISDA Determination]
	(iii)	Screen Rate Determination:	
		– Relevant Rate:	[●]
		– Interest Determination Date(s):	[●]
		– Page:	[●]
		– Relevant Time:	[●]
	(iv)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Specified Duration (if other than the relevant Interest Period):	[●]/[Not Applicable]

	–	Reset Date:	[●]
(v)		Step-Up Fixed Fee Rate:	[●] per cent. per annum
(vi)		Representative Amount:	[●]
(vii)		Reference Banks:	[●]
(viii)		Interest Determination Date:	[●] in each year
(ix)		Interest Payment Date(s):	[●] [and [●]] in each year
(x)		First Interest Payment Date:	[●]
(xi)		Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(xii)		Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond basis] [30E/360 or Eurobond Basis]
(xiii)		Reference Gilt:	[[●]% Treasury Stock due [●]] [Not Applicable]
(xiv)		Comparable German Bund Issue:	[[●]% German Bundesanleihe Security due [●]] [Not Applicable]
(xv)		Comparable United States Treasury Securities:	[[●]% US Treasury Security due [●]] [Not Applicable]
16		Floating Rate Bond Provisions:	[Applicable/Not Applicable]
	(i)	Specified Period(s):	[●]
	(ii)	Specified Interest Payment Dates	[●] in each year[, subject to adjustment in accordance with the Business Day convention set out in paragraph (iv) below]
	(iii)	First Interest Payment Date	[●]
	(iv)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi)	Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank):	[Not Applicable] / [●] as Calculation Agent]
	(vii)	Screen Rate Determination:	
		– Relevant Rate:	[●]
		– Interest Determination Date(s):	[●]
		– Page:	[●]
		– Relevant Time:	[●]
	(viii)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Specified Duration (if other than the relevant Interest Period):	[●]/[Not Applicable]

	–	Reset Date:	[●]
(ix)		Margin(s):	[+/-][●] per cent. per annum
(x)		Step-Up Floating Fee Rate:	[●] per cent. per annum
(xi)		Minimum Rate of Interest:	[[●] per cent. per annum] [Not Applicable]
(xii)		Maximum Rate of Interest:	[[●] per cent. per annum] [Not Applicable]
(xiii)		Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]
(xiv)		Representative Amount:	[●]
(xv)		Reference Banks:	[●]
17		Zero Coupon Bond Provisions:	[Applicable/Not Applicable]
(i)		Accrual Yield:	[●] per cent. per annum
(ii)		Reference Price:	[●]
(iii)		Day Count Fraction in relation to Redemption Amounts and late payment:	[As set out in Condition 8(h)][●]
18		Index-Linked Bond Provisions:	[Applicable/Not Applicable]
(i)		Index/Formula	[UK Retail Price Index]
(ii)		Interest Rate:	[●]
(iii)		Manner in which the Rate of Interest is to be determined after the Scheduled Redemption Date:	[Screen Rate Determination/ISDA Determination]
(iv)		Screen Rate Determination:	
	–	Relevant Rate:	[●]
	–	Interest Determination Date(s):	[●]
	–	Page:	[●]
	–	Relevant Time:	[●]
(v)		ISDA Determination:	
	–	Floating Rate Option:	[●]
	–	Specified Duration (if other than the relevant Interest Period):	[●]/[Not Applicable]
	–	Reset Date:	[●]
(vi)		Step-Up Fixed Fee Rate:	[●] per cent. per annum
(vii)		Representative Amount:	[●]

- (viii) Reference Banks: [●]
- (ix) Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank): [Not Applicable] / [[●] as Calculation Agent]
- (x) Provisions for determining Interest in the event of changes in circumstances, disruptions, cessation of fundamental changes to the Index: Applicable – Condition 7(c) and 7(e)
- (xi) Interest or calculation period(s): [●]
- (xii) Interest Payment Dates: [●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (xiv) below]
- (xiii) First Interest Payment Date: [●]
- (xiv) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (xv) Minimum Indexation Factor: [Not Applicable][●]
- (xvi) Maximum Indexation Factor: [Not Applicable][●]
- (xvii) Base Index Figure: [●]
- (xviii) Limited Indexation Month(s): [●]
- (xix) Reference Gilt: [●]
- (xx) Day Count Fraction: [Actual/Actual (ICMA)] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]

PROVISIONS RELATING TO REDEMPTION

- 19 Issuer Optional Redemption: [Applicable in accordance with Condition [8(d)]] [Not Applicable]
 - (i) Optional Redemption Date(s): Any Interest Payment Date [falling on or after [●] and at a premium of [●].]
 - (ii) Redemption Amount(s) of each Bond: [●] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount:
 - (vi) Notice period: [●]
- 20 Redemption Amount of each Bond: [●] per Calculation Amount

In cases where the Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: [UK Retail Price Index]

- | | | |
|--------|--|--|
| (ii) | Party responsible for calculating the Redemption Amount (if not the Agent Banks): | [Not Applicable] / [[●] as Calculation Agent] |
| (iii) | Provisions for determining Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: | The Redemption Amount of each Bond shall be determined in accordance with Condition 8(d) |
| (iv) | Determination Date(s): | [●] |
| (v) | Provisions for determining Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | Applicable – Condition 7(c) and 7(e) |
| (vi) | Payment Date: | [●] |
| (vii) | Minimum Redemption Amount: | [●] per Calculation Amount |
| (viii) | Maximum Redemption Amount: | [●] per Calculation Amount |
| 21 | Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: | [●] per Calculation Amount |

GENERAL PROVISIONS APPLICABLE TO THE BONDS

- | | | |
|-----|---------------------------|---|
| 22 | Form of Bonds: | [Bearer/Registered] |
| (i) | If issued in Bearer form: | <p>[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (TEFRA C Rules apply).]</p> <p>[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (TEFRA D Rules apply).]</p> <p>[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (Neither TEFRA C Rules nor TEFRA D Rules apply).]</p> <p>[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice (TEFRA C Rules apply).]</p> <p>[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice (TEFRA D Rules apply).]</p> |

[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice (Neither TEFRA C Rules nor TEFRA D Rules apply).]

[Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (TEFRA C Rules apply).]

[Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (TEFRA D Rules apply).]

[Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond (Neither TEFRA C Rules nor TEFRA D Rules apply).]

- (ii) If Registered Bonds: [Regulation S Global Bond registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg exchangeable for Registered Definitive Bonds on [●] days' notice in the circumstances specified in the Regulation S Global Bond]
- 23 New Global Note: [Yes][No]
- 24 Relevant Financial Centre(s): [Not Applicable][●]
- 25 Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature): [No][Yes]
- 26 Details relating to Instalment Bonds: [Not Applicable]
- (i) Instalment Date: [●]
- (ii) Instalment Amount: [●]

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Listing London
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Bonds to be admitted to trading on the London Stock Exchange’s regulated market and listing on the Official List of the UK Listing Authority with effect from [●].]
[Application is expected to be made by the Issuer (or on its behalf) for the Bonds to be admitted to trading on the London Stock Exchange’s regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from [●].]
[Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Bonds to be issued [have been] [are expected to be] rated:
[Fitch Ratings Ltd (“Fitch”): [●]]
[Standard & Poor’s Credit Market Services Europe Limited (“S&P”): [●]]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[●]/[Save as discussed in “*Subscription and Sale*” in the Base Prospectus, so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer.]

4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: [●]
- (ii) Estimated net proceeds: [●]
- (iii) Estimated total expenses: [●]

[5] YIELD (Fixed Rate Bonds only)

- Indication of yield: [●]

5 [PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

- (i) Name of underlying index: U.K. Retail Price Index (RPI) (all items) published by the Office of National Statistics
- (ii) Information about the Index, its volatility and past and future performance can be obtained from: Information on RPI can be found at www.statistics.gov.uk

6 OPERATIONAL INFORMATION

Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking Société Anonyme and the relevant identification number(s): [Not Applicable][●]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

Name and address of Calculation Agent (if any): [●]

ISIN Code: [●]

Common Code: [●]

DESCRIPTION OF INITIAL LIQUIDITY FACILITY PROVIDERS

BNP Paribas, London Branch

Acting through its office at 10 Harewood Avenue, London NW1 6AA.

BNP Paribas, London Branch is a company incorporated in France (company number 662 042 449 RCS Paris) and registered in England and Wales under company number FC13447, whose registered office is at 10 Harewood Avenue, London NW1 6AA.

National Australia Bank Limited

Acting through its office at 88 Wood Street, London EC2V 7QQ.

National Australia Bank Limited (“**NAB**”) is registered in the State of Victoria with Australian Business Number 12 004 044 937. NAB was incorporated on 23 June 1893.

NAB is a public limited company incorporated in the Commonwealth of Australia and it operates under Australian legislation including the Corporations Act 2001 of Australia. Its registered office is Level 4 (UB4440), 800 Bourke Street, Docklands, Victoria 3008, Australia (telephone number +61 3 8634 2345).

NAB and its controlled entities (“**NAB Group**”) is an international financial services group, providing a comprehensive and integrated range of financial products and services. The principal activities of the NAB Group are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

The Bank of Nova Scotia, London branch

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the Bank Act (Canada) (the “**Bank Act**”). The Bank is a Schedule 1 bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7 and its executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1. A copy of the Bank’s by-laws is available on www.sedar.com.

The Bank is one of North America’s premier financial institutions and Canada’s most international bank. Through its team of more than 81,000 employees, the Bank and its affiliates offer a broad range of products and services, including retail, commercial, corporate and investment banking to more than 19 million customers in more than 55 countries around the world.

The Royal Bank of Scotland plc

Acting through its office at 135 Bishopsgate, London EC2M 3UR.

The Royal Bank of Scotland plc (“**RBS plc**”) is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (“**RBSG**”), a large banking and financial services group. The “**Group**” comprises RBS plc and its subsidiary and associated undertakings. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers. “**RBS Group**” comprises RBSG and its subsidiary and associated undertakings.

RBS Group had total assets of £1,415 billion and owners’ equity of £74 billion as at 30 June 2012. RBS Group’s capital ratios, as at 30 June 2012, were a total capital ratio of 14.6 per cent., a Core Tier 1 capital ratio of 11.1 per cent. and a Tier 1 capital ratio of 13.4 per cent.

The Group had total assets of £1,359 billion and owners' equity of £62 billion as at 30 June 2012. As at 30 June 2012, the Group's capital ratios were a total capital ratio of 15.4 per cent., a Core Tier 1 capital ratio of 9.9 per cent. and a Tier 1 capital ratio of 11.6 per cent.

TAX CONSIDERATIONS

UNITED KINGDOM TAXATION

The following is a summary of the UK withholding taxation treatment in relation to payments of principal and interest in respect of the Bonds as at the date of this Prospectus. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of the Bonds. The comments are based on current law and HM Revenue & Customs (“HMRC”) practice, which may be subject to change, sometimes with retrospective effect, and relate only to the position of persons who are absolute beneficial owners of the Bonds. The summary set out below is a general guide and should be treated with appropriate caution. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their professional advisors. In particular, Bondholders should be aware that they may be liable to taxation under the laws of the UK (by direct assessment) or other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

UK Withholding Tax on UK source interest

The Bonds issued by the Issuer will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange has been designated as a recognised stock exchange for these purposes. The Bonds will be treated as listed on the London Stock Exchange if they are included in the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange. While the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In all cases falling outside the exemption described above, payments in respect of interest on the Bonds will be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or, in certain circumstances, where an exemption contained in section 930 of the Income Tax Act 2007 applies (including, in particular, an exemption for payments to certain UK companies and partnerships).

However, this obligation to withhold on account of UK income tax will not apply if the relevant interest is paid on Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more.

If UK withholding tax is imposed, then the Issuer will not pay additional amounts in respect of the Bonds.

Provision of Information by UK Paying and Collecting Agents

Persons in the UK (i) paying interest to or receiving interest on behalf of another person who is an individual (whether resident in the UK or elsewhere), or (ii) paying amounts due on redemption of any Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual (whether resident in the UK or elsewhere), may be required to provide certain information to HMRC regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries. However, HMRC published practice indicates that they will not require information to be provided in respect of redemption amounts paid or received on or before 5 April 2013.

Other Rules relating to UK Withholding Tax

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds will not be subject to any UK withholding tax pursuant to the provisions mentioned in “UK Withholding Tax on UK source interest” above, but may be subject to reporting requirements as outlined in “Provision of Information by UK Paying and Collecting Agents” above.

Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest for these purposes. Payments of interest are subject to UK withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of UK income tax, Bondholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to “interest” above mean “interest” as understood in UK tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 15(a) (*Passing of resolutions by Bondholders, Modifications and Waiver*) of the Bonds and does not consider the tax consequences of any such substitution.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding tax in relation to such payments. The transitional period will end after agreement on exchange of information is reached between the European Union and certain non-European Union states. A number of third countries (including Switzerland) have adopted equivalent measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of the Dealers and any other dealer appointed from time to time in each case acting as principal or to subscribers from whom subscriptions have been procured by the Dealers, in each case pursuant to the dealership agreement dated on or around the Establishment Date made between, amongst others, the Issuer and the Dealers (the “**Dealership Agreement**”). The arrangements under which a particular Tranche of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers or subscribers are set out in the Dealership Agreement and the Subscription Agreements relating to each Tranche of Bonds. Any such agreement will, *inter alia*, make provision for the price at which such Bonds will be purchased by the Dealers or subscribers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series or Tranche of Bonds.

In the Dealership Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors and the Issuer has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Dealers may, directly or indirectly through affiliates, have provided investment and/or commercial banking, financial advisory and other services to the Obligors and their affiliates from time to time for which they have received monetary compensation. The Dealers may from time to time also enter into swap and other derivative transactions with the Obligors and their affiliates, including in relation to the Bonds. In addition, the Dealers may engage in the future in investment banking, commercial banking, financial or other advisory services with the Issuer, the Obligors or their affiliates.

United States of America

The Bonds have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and, in each case, in circumstances that will not require the Issuer to register under the Investment Company Act 1940 (the “**Investment Company Act**”). Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

The Bonds will be offered, sold and delivered only outside the United States, to persons who are not U.S. Persons, in offshore transactions in reliance on Regulation S.

Each Dealer has agreed that it has offered and sold, and it will offer and sell, Bonds of any Series (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Bonds are a part, as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a sale of an identifiable tranche of Bonds to or through more than one relevant Dealer, by each of such relevant Dealers as to the Bonds of such identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all such relevant Dealers have so certified), only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts in the United States with respect to Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer and its affiliates will also agree that, at or prior to confirmation of sale of Bonds to a distributor, dealer or person receiving a selling concession, fee or other remuneration that

purchases Bonds from it during the distribution compliance period it will send to such purchaser a confirmation or notice stating that such purchaser is subject to the foregoing restrictions on offers and sales. Terms used in this paragraph have the meanings given to them by Regulation S.

Until 40 days after the commencement of the offering of any series of Bonds, any offer or sale of such Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of index-linked or dual currency Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Bonds, which additional selling restrictions shall be set out in the applicable Subscription Agreement or in a drawdown prospectus applicable to a particular Tranche of Bonds.

Due to the restrictions set forth above, purchasers of the Bonds are advised to consult legal counsel prior to making an offer to purchase or to re-sell, pledge or otherwise transfer the Bonds.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State:

- (a) **Approved prospectus**: if the Final Terms in relation to the Bonds specify that an offer of those Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) **Qualified investors**: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) **Fewer than 100 offerees**: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) **Other Exempt offers**: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any

measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) **No deposit-taking:** in relation to any Bonds having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,
- where the issue of the Bonds would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) **Financial Promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
 - (c) **General Compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

General

Each Dealer has acknowledged that other than having obtained the approval of the Prospectus by the UK Listing Authority in accordance with Part VII of the FSMA for the Bonds to be admitted to listing on the Official List of the London Stock Exchange no action has been or will be taken in any jurisdiction by the Issuer or any of the other parties that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws and regulations in each jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Subscription Agreement or in a drawdown prospectus applicable to a particular Tranche of Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme, the granting of the Issuer Security and the issue of Bonds thereunder have been duly authorised by resolutions of the board of directors of the Issuer passed at a meeting of the board held on 23 January 2013.

The establishment of the Programme and the borrowings of HS1 and the security provided by HS1 in favour of the HS1 Security Trustee, the Issuer and the other HS1 Secured Creditors have been duly authorised by resolutions of the board of directors of HS1 at meetings of the board held on 23 January 2013.

The establishment of the Programme and the borrowings of HSRF and the security provided by HSRF in favour of the HS1 Security Trustee, the Issuer and the other HS1 Secured Creditors have been duly authorised by resolutions of the board of directors of HSRF at meetings of the board held on 23 January 2013.

The establishment of the Programme and the provision of the guarantee by the Holdco in favour of the HS1 Security Trustee, the Issuer and the other HS1 Secured Creditors have been duly authorised by resolutions of the board of directors of the Holdco at a meeting of the board held on 23 January 2013.

The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

Clearing and settlement

The Bonds have been accepted for clearing through Clearstream, Luxembourg and Euroclear. The appropriate Common Code and ISIN for each Tranche of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

Yield

The yield for any particular Tranche of Bonds will be specified in the applicable Final Terms and will be calculated at the Issue Date on the basis of the Issue Price. The applicable Final Terms in respect of any Floating Rate Bonds will not include any indication of yield. The yield specified in the applicable Final Terms in respect of a Tranche of Bonds will not be an indication of future yield.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), since 3 January 2013 (being the date of incorporation of the Issuer) which may have, or have had in the recent past, significant effects upon the Issuer's or the Security Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which HS1 is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the Issuer's or the Security Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which HSRF is aware) since 30 August 2012 (being the date of incorporation

of HSRF) which may have, or have had in the recent past, a significant effect on the Issuer's or the Security Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Holdco is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the Issuer's or the Security Group's financial position or profitability.

Significant or Material Change

Since the date of its incorporation, the Issuer has not entered into any contract or arrangement not being in the ordinary course of business other than the Issuer Transaction Documents.

Since 3 January 2013 (being the date of incorporation of Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) no significant change in the financial or trading position of the Issuer.

Since 30 August 2012 (being the date of incorporation of HSRF), there has been (a) no material adverse change in the financial position or prospects of the HSRF and (b) no significant change in the financial or trading position of HSRF.

There has been (a) no significant change in the financial or trading position of HS1 since 30 September 2012 and (b) no material adverse change in the prospects of HS1, since 31 March 2012.

There has been (a) no significant change in the financial or trading position of Holdco and (b) no material adverse change in the prospects of Holdco, since 31 March 2012.

Charges and Guarantees

Save as disclosed in this document, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities nor has the Issuer created any mortgages or given any charge or guarantee.

Underlying Assets

The IBLAs have characteristics that demonstrate capacity to produce funds to service any payments due and payable under the Bonds.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of the following documents may (when published) be inspected during normal business hours at the specified offices of the Issuer at 12th Floor, One Euston Square, 40 Melton Street, London, NW1 2FD and at the offices of the Principal Paying Agent during usual business hours:

- (a) the memorandum and articles of association of the Issuer, HS1, HSRF and Holdco;
- (b) a copy of this Prospectus;
- (c) each Final Terms relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;
- (d) each Investor Report
- (e) prior to the Establishment Date, drafts (subject to minor amendment) and after the Establishment Date copies of the following documents:
 - (i) the CTA;

- (ii) the STID;
- (iii) the Initial Authorised Credit Facilities Agreement;
- (iv) each IBLA;
- (v) the HS1 Security Agreement;
- (viii) the Bond Trust Deed;
- (ix) the Issuer Deed of Charge;
- (x) the Agency Agreement;
- (xi) the Account Bank Agreement;
- (xii) the Issuer Hedging Agreements;
- (xiii) the Liquidity Facility Agreement;
- (xiv) the Master Definitions Agreement;
- (xv) the Issuer Corporate Services Agreement; and
- (xvi) the Tax Deed of Covenant.

Material Contracts

None of the Issuer, HS1, Holdco or HSRF has entered into any contracts outside the ordinary course of its business, which could result in any of the Issuer, HS1, Holdco or HSRF being under an obligation or entitlement that is material to the Issuer's, HS1's, Holdco's or HSRF's, respectively, ability to meet its obligations to all secured creditors in respect of the Bonds being issued.

Third party information

Third party information referred to in the sections entitled "*Risk Factors*", "*Business of HS1*", "*Book-Entry Clearance Procedure*", "*Description of Initial Liquidity Facility Providers*" and "*Regulatory Framework and the Project Documents*" has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Availability of Financial Statements

The audited annual financial statements of the Issuer, HS1, HSRF and Holdco will be prepared as of 31 March in each year, with the first set of accounts to be prepared by HSRF for the period ended 31 March 2013 and the first set of accounts to be prepared by the Issuer for the period ended 31 March 2014. The Issuer, HSRF and Holdco have not published and do not intend to publish any interim financial information, but HS1 provides semi-annual unaudited financial information to various parties under the terms of the CTA. The unaudited interim financial information of HS1 will be prepared as of 30 September in each year. As of the date of this Prospectus and since the incorporation of the Issuer, the Issuer has not commenced operations. Accordingly, no financial statements have been prepared by the Issuer as of the date of this Prospectus. Since the incorporation of HSRF, no financial statements have been prepared by HSRF as of the date of this Prospectus. All future audited annual financial statements (and any published interim financial information) of the Issuer, HS1, HSRF and Holdco will be available free of charge in accordance with "*- Documents Available*" above. As of the date of this Prospectus, neither the Issuer nor HSRF has produced any audited accounts.

The audited accounts of HS1 for the 15-month period ended 31 March 2012 and the 12-month period ended 31 December 2010 are reproduced in the section titled “*Financial Statements of HS1 and Holdco*” below along with the unaudited six month accounts of HS1, for the period ended 30 September 2012.

The audited accounts of Holdco for the period from 3 November 2010 (being the date of incorporation of Holdco) to 31 March 2012 are reproduced in the section titled “*Financial Statements of HS1 and Holdco*” below.

Information in respect of the Bonds and the underlying collateral

The issue price and the amount of the relevant Bonds will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds admitted to trading or the performance of the underlying collateral except for the Investor Report which will be prepared by HS1 on a semi-annual basis and published on the designated website of HS1, being <http://highspeed1.co.uk> and which will also be made available at the specified office of the Principal Paying Agent.

Other Activities of the Dealers

The Dealers and their respective affiliates (i) have provided, and may in the future provide, investment banking, commercial lending, consulting and financial advisory services to, (ii) have entered into and may, in the future enter into, other related transactions with, and (iii) have made or assisted or advised any party to make, and may in the future make or assist or advise any party to make, acquisitions and investments in or related to, the Issuer or the Obligors and their respective subsidiaries and affiliates or other parties that may be involved in or related to the transactions contemplated in this Prospectus, in each case in the ordinary course of business. Specifically, and among others, BNP Paribas, London Branch, National Australia Bank Limited, The Bank of Nova Scotia, London Branch and The Royal Bank of Scotland plc act as Liquidity Facility Providers in respect of the Liquidity Facility made available to the Issuer, HS1 and HSRF under the Liquidity Facility Agreement. The Dealers and their respective affiliates may, in the future, act as Hedge Counterparties.

REGULATORY FRAMEWORK AND THE PROJECT DOCUMENTS

OVERVIEW OF THE REGULATORY FRAMEWORK

This Section sets out the regulatory framework that applies to High Speed 1. It does not cite all aspects of the legislation that is relevant to High Speed 1, focusing instead on the key provisions of the key instruments, but it does set out all material considerations, when read with other relevant sections of this Prospectus, for the purpose of making an investment decision.

Introduction

The regulatory regime applicable to High Speed 1 is effected through a combination of statutory duties (through primary and secondary legislation) and contractual rights that are in each case conferred on the ORR and/or the Secretary of State. This section of the Prospectus is concerned with the statutory framework within which High Speed 1 is operated. See “*Overview of the Project Documents*” for an overview of the contractual framework within which High Speed 1 is operated.

The key legislative instruments are:

- (a) the Railways Act 1993 (the “**Railways Act**”);
- (b) the Channel Tunnel Rail Link Act 1996 as amended by the Channel Tunnel Rail Link (Supplemental Provisions) Act 2008 (the “**CTRL Acts**”);
- (c) the Railways Infrastructure (Access and Management) Regulations 2005, as amended by the Railways Infrastructure (Access and Management) (Amendment) Regulations 2009 (the “**Access Regulations**”), which implement for the purposes of High Speed 1:
 - (i) Directive 91/440/EC, as amended by Directives 2001/12, 2004/51 and 2007/58, on the development of the European Community’s railways; and
 - (ii) Directive 2001/14/EC, as amended by Directives 2004/49 and 2005/58, on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure,(together, the “**Directives**”)²; and
- (d) the Railways (Interoperability) Regulations 2011 (the “**Interoperability Regulations**”), which implement Directive 2008/57/EC on the interoperability of the trans-European rail system.

The Railways Act, passed in order to bring about the privatisation of the railways in Great Britain, continues to regulate much of the operation and management of those railways. But much of it has been disapplied for the purposes of High Speed 1 by specific legislation – the CTRL Acts. The relevant provisions of the Railways Act have been mentioned in this Prospectus because:

- (a) those provisions will apply to both the domestic TOCs which use High Speed 1 and to NRIL in relation to the licensing, the granting of access and the operation of the domestic railway that interfaces with High Speed 1, as well as Ashford International; and
- (b) it is considered helpful to set out both the similarities and differences between the ordinary regulatory regime and the regulatory regime that applies to High Speed 1.

² Directive 2012/34/EU of the European Parliament and of the Council on 21 November 2012 establishing a single European railway area (recast) has yet to be passed into UK law but will ultimately replace Directive 91/440/EC and Directive 2001/14/EC.

ORR's Regulatory Functions and Duties

ORR's statutory functions

The ORR has a number of functions under the Railways Act, for example:

- (a) to grant licences in relation to the operation of railway assets;
- (b) to enforce the conditions to those licences;
- (c) to regulate access to those assets; and
- (d) to regulate the financial and operational performance of NRIL in its capacity as the monopoly infrastructure operator of the railway infrastructure in Great Britain, excluding High Speed 1 (the “**Classic Network**”).

The ORR has some similar functions under the Access Regulations specifically in relation to High Speed 1, namely, to regulate access to High Speed 1 and to regulate the operational performance of the monopoly infrastructure operator of High Speed 1, HS1.

ORR's general statutory duties

The Access Regulations provide that the Railways Act is to be construed as if the ORR's functions under the Access Regulations were also set out therein, to the extent doing so is relevant and consistent with the Directives. Consequently, many but not all of the duties set out in the Railways Act are applicable to the exercise by the ORR of its functions with respect to High Speed 1.

The general duties of most relevance in the context of High Speed 1 require the ORR to exercise its functions in the manner which it considers best calculated:

- (a) to protect the interests of users of railways services;
- (b) to promote the use of the railway network in Great Britain for passenger and freight services and the development of that network to the greatest extent that is considered economically practicable;
- (c) to promote efficiency and economy on the part of persons providing railway services;
- (d) to promote competition in the provision of railway services;
- (e) to promote measures designed to facilitate the making by passengers of journeys which involve use of the services of more than one passenger service operator; and
- (f) to enable persons providing railway services to plan the future of the businesses with a reasonable degree of assurance.

But the ORR's duty under the Railways Act to: “*act in a manner which it considers will not render it unduly difficult for persons who are holders of network licences to finance any activities or proposed activities of theirs in relation to which the ORR has functions*”, does not apply to High Speed 1 because HS1 is not a holder of a network licence in relation to High Speed 1 for the purpose of the Railways Act. This is because the CTRL Acts provide that the licensing regime, which the ORR regulates under the Railways Act, does not apply to High Speed 1.

The Railways Act licensing regime does continue to apply to Ashford International as it is on the Classic Network.

ORR's duty in relation to the Concession Agreement

Overriding duty

The CTRL Acts provide that the ORR has an overriding duty to exercise its functions under the Railways Act (see “*ORR's statutory functions*” above) in such a manner as not to impede the performance of any “**development agreement**”, as defined in the CTRL Acts as:

“an agreement (including one entered into before the passing of this Act) to which the Secretary of State is a party and under which another party has responsibilities in relation to the design, construction, financing, maintenance or operation of the rail link”.

The underlined words were added by the Channel Tunnel Rail Link (Supplementary Provisions) Act 2008.

As the Concession Agreement concerns, amongst other things, the maintenance and operation of High Speed 1 (as the rail link), it is considered to be a development agreement for the purpose of the CTRL Acts. However, significantly, the ORR does not consider itself subject to the overriding duty not to impede the performance of any development agreement referred to above when exercising its functions under the Access Regulations, because the overriding duty is limited to the ORR's economic regulation functions under the Railways Act that relate to the Classic Network and not High Speed 1. If correct, this means that the ORR is not obliged to exercise its Railways Act functions in relation to High Speed 1 in a way that avoids impeding the performance of the Concession Agreement. See “*Risk Factors – Regulatory Risks – Other regulatory risks – Lack of regulatory duty not to impede performance*”.

Duty to incentivise the infrastructure manager

The Access Regulations place a duty on the ORR to ensure that the infrastructure manager of a “**rail link facility**” (meaning a railway facility which is used wholly or partly for the purposes of or in connection with the provision of services for the carriage of passengers or goods on the rail link – High Speed 1), with due regard to safety and maintaining and improving the quality of infrastructure service, is provided with “*incentives to reduce the costs of provision of infrastructure and the level of access charges*”. An “**infrastructure manager**” is the body or undertaking that is responsible for “*the establishment and maintenance of railway infrastructure and the provision of network services in relation to that infrastructure*”. In the context of this Prospectus, the infrastructure in question are the rail link facilities on High Speed 1.

The ORR must provide those incentives by virtue of exercising its rights and responsibilities in relation to the performance by HS1 of its obligations under the Concession Agreement. See “*Overview of the Project Documents – The Concession Agreement*” below for details of how the ORR provides those incentives through the Concession Agreement.

Memorandum of Understanding

On an unspecified date, the ORR and the Secretary of State entered into a Memorandum of Understanding (the “**MoU**”) in relation to the ORR's duty under the Access Regulations to incentivise the infrastructure manager.

Amongst other things, the MoU establishes that the ORR will provide the Secretary of State with “*all the information, assistance and advice*” that the Secretary of State reasonably requires in order that he may:

- (a) decide whether to require HS1 to provide certain infrastructure capability where HS1 has failed to do so for three or more consecutive days (the trigger for the Secretary of State being entitled to use this emergency step in power to ensure continuity of service. See “*Risk Factors – Regulatory Risks – Secretary of State step-in and enforcement*”);

- (b) respond to any challenge by HS1 to any regulatory decision, Final Order or Provisional Order; and
- (c) bring proceedings against HS1 where it has failed or refuses to comply with a regulatory decision, Final Order or Provisional Order or the Enforcement Procedure.

ORR's Regulatory Statement

On 30 October 2009, the ORR published a Regulatory Statement in respect of the regulation of High Speed 1 (the “**Regulatory Statement**”). A regulatory statement sets out key elements of the ORR's expected approach to its function under the Access Regulations to regulate the economic performance of High Speed 1.

The Regulatory Statement provides that:

- (a) the ORR recognises that the Regulatory Statement may be relied upon by HS1, the Secretary of State, prospective purchasers of HS1 and any new future owner and its equity and debt providers; but
- (b) the Regulatory Statement sets out the ORR's current intentions as to its approach to the regulation of High Speed 1, and that that statement cannot fetter its discretion in relation to the future exercise of its functions.

The Regulatory Statement is over three years old and it continues to refer to the regulatory and contractual matrix that existed at that time. In particular, references are made to ongoing or anticipated reviews of the charging proposed by HS1.

General Approach

The regulatory regime came into effect on 1 October 2009.

The ORR confirms in the Regulatory Statement that it expects to regulate High Speed 1 as far as possible in the way in which it regulates the Classic Network, whilst recognising there are differences between High Speed 1 and the Classic Network, and differences between HS1 and NRIL. In general, the ORR expects to apply its general published policies and principles of regulation having regard to these differences to the extent relevant.

The ORR recognises, however, the government's objective of recovering, over the term of the HS1 Concession, a proportion of the very significant investment it has made in High Speed 1. In the light of this, the ORR considers that the HS1 business model is different from that of NRIL. The ORR acknowledges that HS1 will be seeking:

- (a) to raise revenues through increased usage of High Speed 1; and
- (b) to finance these activities through the charging regime described in the Regulatory Statement.

Consequently, the ORR expects to have regard to the different characteristics and economics of High Speed 1 and the differences in HS1's business model, where relevant, when approaching the regulation of High Speed 1.

The ORR recognises that NR(HS) is responsible for operating, maintaining and renewing High Speed 1 under the Operator Agreement (see “*Overview of the Project Documents – The Operator Agreement*” below) and that the Operator Agreement flows-down the relevant provisions of the Concession Agreement, including those relating to Periodic Reviews and Interim Reviews of OMRC.

The flow-down of relevant Concession Agreement provisions has been reflected in the amended and restated Operator Agreement of 2010 and 2012 – see “*Overview of the Project Documents – The Operator Agreement*” below – and market testing has been included in the Secretary of State Operator

Agreement Direct Agreement – (see “*Overview of the Project Documents – Direct Agreements – Secretary of State Operator Direct Agreement Specific Terms – Market testing*” below).

The ORR’s published statement and subsequent confirmation of its position on specific matters (for example, its acceptance of HS1’s discounts policy) are important markers of how High Speed 1 has been and will be regulated. However, in the three years during which High Speed 1 has been fully regulated, there have been no decided cases, so there is little precedence as to how that regime will be regulated in practice.

Charging Framework

The ORR notes in the Regulatory Statement the establishment of a charging framework for High Speed 1 through the Concession Agreement.

See “*Overview of the Project Documents – The Concession Agreement – Economic regulation*” below.

Investment Recovery Charge

The ORR recognises in the Regulatory Statement that the charging framework established by government provides that charges levied by HS1 may include an investment recovery charge for the use of High Speed 1 up to a maximum level set by the Secretary of State as a maximum value per minute of train service.

The Regulatory Statement notes that the intention:

- (a) of government is to recover through this charge, a significant part of the long term capital costs of High Speed 1 over the life of High Speed 1 Concession (until 2047, although pursuant to the terms of the Concession Agreement, High Speed 1 Concession ends in 2040); and
- (b) of HS1 is to levy an investment recovery charge at the maximum level on all passenger TOCs except when it elects to apply a discount in accordance with the Access Regulations.

The ORR observes in the Regulatory Statement that the result of the imposition of a cap on what may be levied, as directed by the Secretary of State, is that HS1 is likely to recover only a part of the amount of the long-term capital cost of High Speed 1 at current values over the life of its concession. The Regulatory Statement records that government envisages a second concession being let in relation to the period from the end of the current concession, 2040 to 2086, over which additional long-term capital costs will be recovered.

The ORR states in the Regulatory Statement that it would not expect, in considering any appeals concerning such charge, to change the arrangements for it, as set out in the charging framework.

Discounts

The charging and discount provisions of the Access Regulations are relatively untested. HS1 is not aware of any detailed guidance setting out how the discounting principles should be applied – whether under EU Directive 2001/14 or the Access Regulations which transposed the Directive into UK law. However, the ORR confirmed in October 2011 that HS1 has established a decision process for the granting of discounts that complies with the Access Regulations.

Operations, Maintenance and Renewal Charge

The Regulatory Statement notes that under the Concession Agreement, the operational, maintenance and renewal element of track access charges to be levied by HS1 is subject to periodic review by the ORR. The ORR says that it would expect to either approve or determine the level of operation, maintenance and renewal cost that would be incurred by an efficient operator, and set a level of charge consistent with that.

The Regulatory Statement goes on to say that for passenger TOCs, the ORR expects that the operational, maintenance and renewal charges will continue to comprise:

- (a) charges for costs directly incurred as a result of operating train services; and
- (b) charges for fixed and common costs, recovered as long-term costs of providing for railway services on High Speed 1,

and that charges relating to renewals will be calculated as an annuity based on the long term cost, with a fund, held in escrow, being built up to cover the costs of future renewals.

The ORR states in the Regulatory Statement that it expects to determine operational, maintenance and renewal charges by reference to an efficient level of operation, maintenance and renewal. Consistent with the Concession Agreement, the ORR will not take into account the actual or expected income that HS1 receives from property, retail, car parking and other activities, or from the investment recovery charge. Thus the level of operational, maintenance and renewal charges is not established using the “single till” model adopted for NRIL in relation to the Classic Network.

Freight Charge

The ORR acknowledges in the Regulatory Statement HS1’s plans to levy freight charges based on the efficient costs directly incurred as a result of operating freight train services. The freight charges that will be levied by HS1 for the costs directly incurred comprise a “variable” element to recover wear and tear costs and an element to cover the additional “avoidable” costs of operating freight train services. It notes that HS1 has applied a significant but time-limited discount to the “avoidable costs” element of the OMRC for freight operators (and it is understood that HS1 fully recovers this discount from the supplement that it charges franchised passenger TOCs (see “*Overview of the Project Documents – Framework Agreements and other Track Access Agreements – Common terms of framework track access agreements – Access Charges*” below)).

The ORR notes that HS1 may seek to recover higher charges from specific freight market segments but that any such mark-up would need to be reflected in the Track Access Agreement and would be subject to ORR approval.

Initial Review of the Structure and Level of Access Charges

The ORR notes in the Regulatory Statement that HS1 has outlined to the ORR how HS1 has established the initial structure and level of the track access charges for the period to 2015 (the end of the first “**Control Period**”), at the same time noting that HS1’s international benchmarking analysis is not at a level of robustness that allows unambiguous conclusions to be drawn on the relative efficiency of HS1 to relevant comparative railways. The ORR will assess HS1’s efficiency, in part by benchmarking against similar international infrastructure operators, in the next Periodic Review that will be conducted in respect of the second Control Period from 1 April 2015 to 31 March 2020.

The ORR concludes that it has seen no evidence to suggest that HS1 proposed costs and charges are unreasonable for the first Control Period. The Regulatory Statement records that the significant discount offered to freight TOCs for the first Control Period is likely to offset any inefficiencies in the level of freight avoidable costs.

Periodic Reviews

The Concession Agreement sets out the purpose and, in general terms, the process of the reviews that are conducted by ORR every five years (each a “**Periodic Review**”), the first of which is expected to take effect in April 2015. The ORR considers that establishing OMRC that is fixed in real terms for the duration of the Control Period provides certainty to TOCs and also provides an incentive on HS1 to outperform the decisions made at a Periodic Review. Any benefits of outperformance and efficiency of renewal and replacement will be available for sharing between HS1 and TOCs by way of allocating a percentage (set at a 70/30 split in favour of train operators in the Concession Agreement, but subject to

possible change by the ORR at Periodic Reviews) to a reduction of the renewal and replacement element of future OMRC payable by TOCs on High Speed 1. Any benefits of outperformance in efficiency in respect of the operations and maintenance elements would be retained by HS1 for the relevant Control Period.

The ORR expects HS1 to establish an ongoing and robust programme of benchmarking work to compare itself to other high speed railways. It also expects to approve or determine operational, maintenance and renewal charges that assume HS1 is as efficient as other high speed rail companies, taking account of the particular circumstances of High Speed 1. The ORR is required to publish its consultation on the next Periodic Review in 2015, including details of expected benchmarking required, by the end of March 2013. HS1 is already working on preparing benchmarking analysis in conjunction with NR(HS) to support its 5-year Asset Management Statement submission in December 2013.

The ORR acknowledges in the Regulatory Statement that HS1 has long term contracts in place with NR(HS) and also with certain affiliates of the UKPN Parties which predate the ORR's regulatory role in relation to High Speed 1. The ORR notes that in setting operational, maintenance and renewal charges, it expects to have regard to the terms of the Operator Agreement and the UKPN Agreements (see "*Overview of the Project Documents – The Power Supply Agreements*" below), but it also expects HS1 to use the rights it has under the UKPN Agreements to secure efficiency improvements.

Interim Reviews

The Regulatory Statement notes that the Concession Agreement makes provision for Interim Reviews of OMRC in the event of material changes between Periodic Reviews. HS1 (but not the ORR) may seek an Interim Review. In seeking an Interim Review, the ORR expects HS1 to provide strong evidence as to why such a review is required and why the situation cannot be resolved at the next Periodic Review.

The Regulatory Statement also notes that the Concession Agreement provides the ORR with discretion to decide that it is not appropriate to increase OMRC as a consequence of a material change and that the costs of such a change can instead be taken account of when setting OMRC for future control periods.

Self regulating mechanics

The Regulatory Statement points out that if FTAA's contained self-modifying provisions, for example, the TAA Review Event mechanism, the ORR would not need to approve changes to either the level or structure of track access charges for High Speed 1. As it stands, HS1 is not able to make changes to charges payable under an FTAA by amending the tariffs published in the network statement, although it is expected that the network statement would be updated to reflect any changes that have been approved.

HS1's Stewardship duty

ORR's enforcement powers

The Regulatory Statement confirms that the Enforcement Procedure gives the ORR responsibility for monitoring HS1's compliance with certain obligations under the Concession Agreement and taking appropriate enforcement action, including preventative action in respect of likely breaches.

The Concession Agreement obligations that are the subject of ORR regulation under the Enforcement Procedure include:

- (a) HS1's asset stewardship duty (including its duty to operate, maintain, renew and replace and to plan and carry out upgrades of, including any Specified Upgrades, High Speed 1, and to do so as if HS1 were responsible for the stewardship of High Speed 1 for the period of 40 years following the date that any such activities are planned or carried out); and

- (b) HS1's duty to provide minimum operational standards in relation to infrastructure capability, performance and stations (see "*Overview of the Project Documents – The Concession Agreement – Minimum Operational Standards*").

The ORR notes that its enforcement powers under the Enforcement Procedure have been modelled on its enforcement powers under the Railways Act, with powers to make enforcement orders (Final Orders and Provisional Orders) and require compliance with an order through seeking an injunction or other relief or remedy, though without the ability to levy financial penalties. It notes that HS1's failure to comply with an enforcement order which has not been appealed is an event of default under the Concession Agreement which may lead to termination of the Concession Agreement by the Secretary of State.

ORR's expectations

The Regulatory Statement sets out the key general stewardship duty in the Concession Agreement on HS1 in relation to High Speed 1 railway infrastructure. It points to other specific obligations relating to asset stewardship, but it is noted that all of these are subject to the general duty. The ORR expects:

- (a) to take a proportionate and timely approach to monitoring and enforcement consistent with its approach to the Classic Network and recognising the processes set out in the Concession Agreement; and
- (b) to have regard to:
 - (i) the terms of the Operator Agreement and the UKPN Agreements in relevant cases as "*relevant circumstances*" for the purposes of HS1's general stewardship duty; and
 - (ii) whether HS1 has taken actions that would be expected of an efficient infrastructure manager complying with that general duty to address any constraints created by the contracts, and to any other relevant circumstances.

The Regulatory Statement sets out the ORR's expectation that HS1's compliance with the general stewardship duty will result in levels of operational performance meeting the reasonable requirements of TOCs using High Speed 1 and better than the minimum performance levels specified in the Concession Agreement. In considering what these reasonable requirements are, regard will be had to the performance provisions in FTAAAs.

The ORR also expects, as with the Classic Network, that the standard of operation required by the general stewardship duty in the Concession Agreement will require the infrastructure manager to take actions within its power to minimise delays resulting from all causes, not just those for which it is directly responsible. The important role of TOCs is also noted in this regard. The ORR is looking to HS1 to develop effective partnerships with TOCs, contractors and adjacent infrastructure managers to this end.

Enhancements

The ORR notes in the Regulatory Statement that the Concession Agreement and the HS1 Network Code set out HS1's obligations regarding enhancements. The ORR notes that it would not expect the "best practice" requirements in the asset stewardship purpose to be used to lead to unnecessary over-specification or as a means of securing unfunded enhancements to High Speed 1 infrastructure.

FTAAs and other Track Access Agreements

The ORR notes in the Regulatory Statement that simultaneously with entering into the Concession Agreement, HS1 has entered into FTAAAs with EIL and LSER. The ORR notes that it was asked to review these agreements and the HS1 Network Code (which states key terms for the agreements) in draft. Following this review, the draft agreements and HS1 Network Code were amended and the ORR has told the parties that, had its pre-approval powers under the Access Regulations (that is, its

requirement to approve the terms of any FTAA before the parties enter into it) been in effect at that time, it would have been prepared to approve the agreements as entered into.

The ORR states in the Regulatory Statement that when asked to pre-approve FTAA's and in dealing with appeals, it expects, subject to its statutory duties, to have appropriate regard to the commercial judgements of the parties and the nature of the HS1 business model. The ORR notes that High Speed 1 railway infrastructure has been designated as specialised infrastructure for the purposes of the Access Regulations. It further notes that it was consulted before this designation was made and, beyond suggesting a wider consultation of industry parties, it made no objection to it.

The Regulatory Statement refers to the ORR's intention to consult on the criteria and procedures for approving FTAA's. That consultation has subsequently been completed and the latest published versions of the criteria and procedures was published in January 2011 (see "*Access – Published criteria and procedures for the approval of track access contracts*" below).

Stations

The Regulatory Statement notes that the Concession Agreement gives the ORR a limited role in monitoring, and if necessary, taking enforcement action in respect of the provision of certain minimum levels of HS1 Station facilities (such as numbers and lengths of platforms).

The Regulatory Statement records that the main stewardship obligations for HS1 Stations are contained in leases granted by the Secretary of State to HS1, and enforced by the Secretary of State. Separate from this, the ORR has an appeal role under the Access Regulations in respect of the terms of access to HS1 Stations by TOCs.

Secretary of State's Regulatory Functions and Duties

Following the entry into force of the Access Regulations, many of the Secretary of State's functions under the Access Regulations were transferred to the ORR.

The following functions under the Access Regulations continue to reside with the Secretary of State:

- (a) the Secretary of State has a duty to establish a charging framework for access to High Speed 1. The charging framework that the Secretary of State has established is set out in the Concession Agreement (see "*Overview of the Project Documents – The Concession Agreement – Economic regulation – Charging Framework*");
- (b) the Secretary of State, through the development agreement (that is, the Concession Agreement), must lay down conditions, including where appropriate advance payments, to ensure that, under normal business conditions and over a reasonable time period, the accounts of an infrastructure manager shall at least balance:
 - (i) income from infrastructure charges;
 - (ii) surpluses from other commercial activities; and
 - (iii) public funds,with infrastructure expenditure;
- (c) the Secretary of State is entitled to establish a capacity allocation framework for granting access to High Speed 1;
- (d) the Secretary of State's consent is required for the continued levying of a congestion charge in circumstances where the infrastructure manager fails to make progress with the implementation of an action plan included as part of a capacity enhancement plan produced pursuant to the Access Regulations; and

- (e) the Secretary of State has a right to be consulted in relation to certain of the ORR's decisions under the Access Regulations that affect High Speed 1. This includes, for example, the ORR's decisions:
 - (i) as an appellate body; and
 - (ii) with respect to international passenger services.

The Secretary of State has various rights and functions by virtue of being a party to the Concession Agreement (see "*Overview of the Project Documents – The Concession Agreement*").

Licensing

The Railways Act

The ORR is responsible under the Railways Act for the licensing of railway activities on the Classic Network.

The Railways Act provides for the licensing of "**railway assets**" (which includes any train, network, station or light maintenance depot).

Both the ORR and the Secretary of State may grant licences authorising any person to be the operator of railway assets and it is prohibited to operate a railway asset unless authorised by a licence or exempted (see the following paragraph). This prohibition does not apply to a person who acts as the operator of a railway asset to the extent that the asset is operated for the purposes of providing services for which a European licence is required.

The Railways Act also provides that the Secretary of State may by order grant exemption from the requirement to be authorised by licence to be the operator of a railway asset. None of the six exemption orders made thus far by the Secretary of State under the Railways Act has any application to High Speed 1. The ORR may also grant an exemption on an application by any person.

The CTRL Acts

As mentioned above (see "*ORR's Regulatory Functions and Duties – ORR's general statutory duties*"), the CTRL Acts provide that the Railways Act licensing regime does not apply to the network comprising High Speed 1. Consequently, HS1 is not required to hold any statutory licence equivalent to a Railways Act network licence in respect of its operation of High Speed 1. As the Concession Agreement is the sole means by which HS1 is entitled to operate and maintain High Speed 1, it may be that the Concession Agreement should be regarded in this context as having the same function as a Railways Act licence.

The Railways Act licensing regime does continue to apply to Ashford International. EIL has a licence from the Secretary of State to operate Ashford International until 29 July 2052. That licence is personal to EIL. EIL also has a European Passenger Licence under the Railway (Licensing of Railway Undertakings) Regulations 2005. Under current arrangements, EIL is and will remain the operator of Ashford International until 2013 at which point the existing station management agreement will expire.

The CTRL Acts disapply the Railways Act licensing regime in respect of services operated through the Channel Tunnel and those freight services that operate only on High Speed 1. Consequently, the Railways Act continues to apply to the TOCs that operate domestic passenger services running on High Speed 1, as well as those freight services that operate on both High Speed 1 and the Classic Network.

Nominated undertaker

The CTRL Acts authorise the nominated undertaker to construct and maintain High Speed 1 and provides that the Secretary of State may identify a nominated undertaker for such purpose by issuing an order.

The Channel Tunnel Rail Link (Nomination) Order 2008 provided that HS1 was the nominated undertaker for the purposes of the maintenance of High Speed 1. The Concession Agreement constrains the Secretary of State's ability to further nominate anyone else to be the nominated undertaker in relation to High Speed 1. (See "*Overview of the Project Documents – The Concession Agreement – Certain other provisions – Liability*" below in relation to the way in which the Concession Agreement provides for any further nomination).

Access

General

The ORR is responsible under the Railways Act for regulating the granting of access to railway facilities on the Classic Network. A "**railway facility**" is defined to mean any track, station or light maintenance depot. But specific access arrangements have been made in relation to High Speed 1 and the Railways Act regime does not therefore apply in that regard. In broad terms however, the specific regime is similar to the general one. The following is a brief summary of the two regimes.

The Railways Act

Access to a railway facility is secured under the Railways Act by way of entering into an access contract with the relevant facility owner. In the case of the track, the facility owner will invariably be NRIL. In the case of stations or depots, the facility owner will be the person that operates that facility. The person that operates a railway facility will, in the case of stations, usually be a passenger TOC and in relation to the largest stations, NRIL itself; in the case of a light maintenance depot, usually a TOC. An operator of a railway facility will operate that facility under the terms of a lease from NRIL (except where NRIL operates that facility directly or that facility is owned by another third party).

All access contracts must be approved by the ORR as must all amendments to them. The ORR can also require a facility owner to enter into an access contract with an applicant for the use of that facility owner's railway facilities and require amendment to an existing access contract, including an amendment that permits more extensive use of the relevant railway facility than hitherto offered.

As part of its right to approve the terms of any access contract, the ORR can review the level of access charges to be levied under the terms of that access contract. The ORR's regulation of access charges is discussed in more detail below (see "*Economic Regulation*" below).

The Secretary of State may exempt railway facilities from the ORR's regulation of access under the Railways Act. There have been five exemption orders made under the Railways Act. Of particular relevance, Ashford International is exempt by virtue of the Railways (Class and Miscellaneous Exemptions) Order 1994.

The CTRL Acts

The CTRL Acts disapply the Railways Act access regime. Specifically, they provide that the ORR may not:

- (a) direct a facility owner to enter into an access contract where that facility owner is a rail link undertaker (see "*ORR's Regulatory Functions and Duties – ORR's duty in relation to the Concession Agreement – Memorandum of Understanding*" above) and the railway facility in question is a rail link facility;
- (b) approve an access contract agreed between a facility owner and an applicant for access to a railway facility where that facility owner is a rail link undertaker and the railway facility in question is a rail link facility (but see below ("*The Access Regulations*") with respect to the requirements of the Access Regulations which give the ORR a pre-approval role with respect to framework agreements); or

- (c) direct an installation owner to enter into a contract for the use of its network installation where that installation owner is a rail link undertaker and network installation comprises part of the rail link.

The CTRL Acts do not apply to Ashford International as it is not a rail link facility. (In this regard, see “*The Railways Act*” above).

The Access Regulations

The Access Regulations replicate aspects of the ORR’s right set out in the Railways Act to pre-approve access contracts, with the ORR’s prior approval being required before any person enters into or amends a framework agreement (see “*Framework agreements*” below) in relation to High Speed 1.

The key differences between the access arrangements in the Access Regulations and the Railways Act are:

- (a) the ORR cannot direct HS1 to enter into a framework agreement (other than potentially pursuant to an appeal– see “*Economic Regulation – Secretary of State duty*” and “*Economic Regulation – Appeals*” below – or under competition law);
- (b) the ORR’s right of pre-approval applies only to framework agreements, including amendments thereto, being for a period in excess of one working timetable (Track Access Agreements of shorter duration not being framework agreements for the purposes of the Access Regulations); and
- (c) the ORR’s right of pre-approval does not apply to Station Access Agreements (see “*Framework agreements*” immediately below).

Framework agreements

A “**framework agreement**” is defined as a track access contract which applies for a period in excess of one working timetable (a “**FTAA**”). The ORR does not consider a Station Access Agreement to be a framework agreement under the Access Regulations since a Station Access Agreement does not relate to “infrastructure capacity” – a term that is defined by reference to “*the potential to schedule train paths*”.

Whilst the infrastructure manager cannot be compelled to enter into an FTAA with an applicant for access, except perhaps on appeal (see “*Economic Regulation – Appeals*” below), it has obligations under the Access Regulations to:

- (a) as far as possible, meet all requests for infrastructure capacity, including those requests for train paths that cross more than one network, and in so doing, take account of all constraints on applicants, including the economic effect on their business; and
- (b) make sure that infrastructure capacity is allocated on a fair and non-discriminatory basis and ensure that access contracts are non-discriminatory, transparent and in accordance with the requirements of the Access Regulations.

Where the infrastructure manager is faced with competing demands for capacity, it must do its best to ensure the best possible match of those demands, consulting with the applicants in the process.

An FTAA must allow for the amendment or limitation of that FTAA’s terms where such amendment or limitation would enable better use to be made of the railway infrastructure.

FTAAs are expected to be coterminous with franchise agreements in relation to domestic passenger services. Otherwise, the term will depend on the particular access requirements and other circumstances, including where there are commercial contracts, specialised investments or risks, and

may be for a period in excess of fifteen years in exceptional circumstances, where there is large scale and long term investment.

Framework and rules for the allocation of capacity

Framework

As mentioned above (see “*Secretary of State’s Regulatory Functions and Duties*”), under the Access Regulations, the Secretary of State is entitled to establish a framework for the allocation of infrastructure capacity with respect to High Speed 1. The Secretary of State has not elected to establish such a framework. The Access Regulations provide that the infrastructure manager is responsible for the establishment of specific capacity allocation rules and for the processes of allocating infrastructure capacity in respect of infrastructure for which it has responsibility (which have been addressed in the HS1 Network Code).

The Access Regulations provide that an applicant wishing to apply for infrastructure capacity must submit an application to the infrastructure manager in accordance with a predetermined timetable. This applies both in relation to applications for capacity to operate services and to maintain the infrastructure. In reserving infrastructure capacity for the latter purpose, the infrastructure manager must take into account the effect of that reservation on applicants.

Specialised infrastructure

There are provisions under the Access Regulations that allow the infrastructure manager to declare parts of the relevant infrastructure as “specialised” for the purpose of using those designated parts for the operation of specified rail services. The effect of such designations is to allow the infrastructure manager to prioritise different rail services without falling foul of the competition rules of the EC Treaty.

All of High Speed 1 has been declared specialised infrastructure, allowing HS1 (as the infrastructure manager) to give priority to specified types of rail service as follows (listed in order of the highest priority to the lowest):

- (a) high speed international passenger trains;
- (b) high speed domestic passenger trains;
- (c) high speed freight trains; and
- (d) other trains.

Congested infrastructure

There are also provisions under the Access Regulations that provide for what the infrastructure manager must do where the infrastructure for which it is responsible is congested. Infrastructure that is declared congested can lead to:

- (a) the requirement to perform a capacity study;
- (b) a prioritisation of capacity allocation; and
- (c) the levy by the infrastructure manager of a congestion charge.

Regulatory decisions concerning international passenger services

Railway undertakings operating international passenger services have a right of access and the right to pick up passengers at any station located on the international route and set them down at another,

including stations located in the same Member State (i.e. a right of cabotage). These rights are subject to the ORR's determination as to whether:

- (a) the service concerned is an international passenger service; and
- (b) the exercise of those rights would compromise the economic equilibrium of a relevant public service contract. The IKF Franchise is a relevant public service contract.

Published criteria and procedures for the approval of track access contracts

General

On 14 October 2010, the ORR published its Criteria and Procedures for the approval of FTAAAs (the “**Criteria and Procedures**”). The latest iteration – *Criteria and Procedures for the approval of framework agreements for HSI* – is dated January 2011. The Criteria and Procedures describe the criteria and procedures that the ORR expects to follow in processing applications for access to High Speed 1. The procedures set out in the Criteria and Procedures are not summarised for the purposes of this Prospectus.

Access

The Criteria and Procedures state that the focus of the ORR's approach to its regulatory involvement is to oversee the fair and efficient allocation of capacity on High Speed 1 in accordance with the Access Regulations and as set out in the relevant parts of the Regulatory Statement. That entails making judgements about:

- (a) a realistic extent of spare capacity and the allocation of limited capacity between different requirements;
- (b) the operational integrity of the services in a proposed contract and their wider implications for network performance; and
- (c) the appropriate balance between certainty (for a TOC) and flexibility (for HSI to accommodate the needs of all other passenger and freight TOCs, bearing in mind the terms of the declaration of specialised infrastructure).

As noted above (see “*Framework and rules for the allocation of capacity – specialised infrastructure*”), all of High Speed 1 has been declared “specialised” infrastructure. The ORR notes in the Criteria and Procedures that it must have regard to that declaration in considering applications for access to High Speed 1.

The ORR notes in the Criteria and Procedures that it expects to take a proportionate response in determining whether, and on what terms, to approve applications for access, focusing on:

- (a) the implications of contracts submitted for the efficient consumption of railway network capacity over time;
- (b) actual and potential impacts on third parties;
- (c) any areas of disagreement; and
- (d) the fairness of their terms and their consistency with the Access Regulations, the ORR's published policies, its decisions in any periodic or interim review of access charges, and any other relevant considerations which may include HSI's obligations and responsibilities under the Concession Agreement, the charging framework published by the Secretary of State and the Regulatory Statement.

The ORR also states in the Criteria and Procedures that in carrying out its function of pre-approving FTAAAs, it will want to ensure that it facilitates a “*public interest outcome*”.

The Criteria and Procedures also set out the ORR’s thinking on track access charges, performance regimes, possession regimes and the liability framework for access contracts.

Track Access Charges

The Criteria and Procedures state in relation to track access charges:

- (a) that one of the ORR’s key roles is to protect TOCs from being charged unduly high prices for access to High Speed 1, but the ORR must also ensure that the access charges paid by TOCs are sufficient to enable HS1 to recover the costs of operating, maintaining and renewing High Speed 1; and
- (b) the requirement to pre-pay access charges is not a barrier to entry for new small TOCs. The ORR is therefore continuing to monitor this requirement and its impact (if any) on new entrants and indicates that it is willing to consider applications for access payments to be made to HS1 in arrears.

Infrastructure management

Infrastructure managers, responsibility and planning

The Access Regulations set out provisions for the management by infrastructure managers of the infrastructure that they are responsible for (this includes High Speed 1). The Access Regulations provides that an infrastructure manager must be responsible for its own management, administration and internal control.

The Access Regulations requires the infrastructure manager to draw up a business plan which is designed for the purpose of ensuring:

- (a) optimal and efficient use and development of the infrastructure; and
- (b) financial balance,

and the ORR has regular oversight of that plan.

Network Statements

The infrastructure manager must develop and regularly update and publish a “*network statement*”. A network statement must detail:

- (a) the nature of the railway infrastructure which is available to applicants and the conditions of access to it;
- (b) where further information may be obtained about the nature of the track access to, and supply of services in, any of the terminals, ports and service facilities to which access may be obtained under the Access Regulations;
- (c) the charging principles and tariffs, including details of the charging methodology, exceptions to the charging principles, and discounts;
- (d) the charges for the supply of services listed in the Access Regulations which are provided by only one supplier;

- (e) the principles and criteria for the allocation of infrastructure capacity, setting out the general capacity characteristics of the infrastructure available and the restrictions on its use, including likely capacity requirements for maintenance;
- (f) the procedures and deadlines in the capacity allocation process and specific criteria employed in that process; and
- (g) the measures taken by the infrastructure manager to ensure fair treatment of freight services and international services, and in responding to ad hoc requests for infrastructure capacity.

Economic Regulation

ORR duty

The Access Regulations represent the primary piece of legislation that deals with the economic regulation of High Speed 1. The ORR is under a duty to ensure that the charges that are levied for access to High Speed 1 are consistent with the requirements of those regulations. These requirements provide that:

- (a) the infrastructure manager's charges for equivalent uses of its infrastructure must be comparable and comparable services in the same market segment must be subject to the same charges; and
- (b) the network statement that the infrastructure manager produces (see "*Infrastructure Management – Network Statements*" above) must result in equivalent and non-discriminatory charges for different railway undertakings that perform services of an equivalent nature in a similar part of the market (to the extent this can be done without breaching confidentiality).

The Access Regulations provides that negotiations between an applicant and the infrastructure manager about the level of infrastructure charges must take place under the supervision of the ORR. If such negotiations are likely to contravene the requirements of the Access Regulations (see the paragraph immediately above), the ORR has a duty to intervene.

Secretary of State duty

The Access Regulations place a duty on the Secretary of State to establish a charging framework for High Speed 1. The Secretary of State has fulfilled this duty by including the charging framework in the Concession Agreement.

Appeals

An applicant has a right of appeal to the ORR if it believes that it has been unfairly treated, discriminated against or is in any other way aggrieved.

This wide-ranging right of appeal lies in particular against decisions of the infrastructure manager concerning the following matters:

- (a) the network statement (including the information that must be included therein);
- (b) the capacity allocation process and its results;
- (c) the charging scheme and charging system;
- (d) the level or structure of infrastructure fees which the applicant is required to pay; and
- (e) the arrangements in connection with entitlement to access.

The ORR has a duty to make a decision on an appeal within two months of receipt of all relevant information and, where appropriate, issue a direction to remedy the situation arising out of it.

Access charges

The Access Regulations provide that the infrastructure manager must be able to justify that the charges invoiced to each railway undertaking for access to the infrastructure, comply with the methodology, rules and, where applicable, scales laid down in the network statement (see “*Infrastructure management – Network Statements*” above).

As referred to above (see “*ORR’s Regulatory Functions and Duties – ORR’s duty in relation to the Concession Agreement – Overriding duty*”), the Concession Agreement is a development agreement for the purposes of the Access Regulations. The ORR performs its economic regulatory function under the terms of the Concession Agreement (see “*Overview of the Project Documents – The Concession Agreement – Economic regulation*” below).

Performance

The Access Regulations require the infrastructure manager to establish a performance regime as part of the charging system to encourage railway undertakings and the infrastructure manager to minimise disruption and improve the performance of the relevant infrastructure. Such a performance scheme may include:

- (a) penalties for actions which disrupt the operation of the rail network;
- (b) compensation for undertakings which suffer from disruption; and
- (c) bonuses that reward better than planned performance.

The basic principles of the performance scheme must apply in a non-discriminatory manner throughout the network to which the scheme relates.

FTAAs and others Track Access Agreements establish the performance regime that operates between HS1 and the TOCs that use High Speed 1 (see “*Overview of the Project Documents – Framework Agreements and other Track Access Agreements*” below).

Enforcement

Under the Railways Act:

- (a) the Secretary of State has the power to make enforcement orders and impose financial penalties for contravention of franchise agreements; and
- (b) the ORR has the power to make enforcement orders and impose financial penalties for contravention of railway licence conditions.

The Secretary of State’s enforcement powers are not considered for the purpose of this Prospectus and the ORR’s enforcement powers are not relevant because, as discussed, the licensing provisions of the Railways Act have been disapplied in respect of High Speed 1. The ORR does however have powers of enforcement under the Concession Agreement which replicate many aspects of the Railways Act regime (see “*Overview of the Project Documents – The Concession Agreement – Enforcement and termination*” below).

Interoperability

Purpose and application of the Interoperability Regulations

The Interoperability Regulations seek to remove technical barriers to the supply of railway equipment and the through-running of trains across the EU Member States, whilst ensuring safe operation.

The Interoperability Regulations apply to certain railway systems including high-speed rail systems such as High Speed 1. Absent a derogation granted by the Secretary of State (see “*Derogations from TSIs*” below), HS1 must therefore ensure that High Speed 1 complies with the Interoperability Regulations.

Requirement for authorisation

The Interoperability Regulations prohibit any person from placing into use any new, upgraded or renewed structural subsystems (including infrastructure, energy, control command and signalling, and rolling stock) unless:

- (a) an authorisation has been granted by the ORR; or
- (b) the Secretary of State has decided that an authorisation is not required.

In order to obtain an authorisation, a subsystem must meet the “*essential requirements*” for interoperability which are set out in the Interoperability Regulations. The essential requirements are met through conformity with applicable EU-wide technical standards for interoperability (each a “**TSI**”) and national technical rules.

Applications may be made to the Secretary of State for a decision as to whether an authorisation is required for the renewal or upgrading of an existing structural subsystem. The Secretary of State must require an authorisation if he considers that there may be an adverse effect on overall safety.

The Interoperability Regulations oblige the operator of an authorised subsystem that has been placed in service to continue to meet the essential requirements, and any applicable TSIs and national technical rules.

Derogations from TSIs

The Interoperability Regulations provide for the Secretary of State to grant derogations from conformity with TSIs in specified circumstances. The Secretary of State has granted, with respect to High Speed 1, derogations from the requirement to comply with some of the applicable TSIs (the “**TSI Derogations**”). These TSI Derogations are contained in the CTRL Section 1 Infrastructure Register and the CTRL Section 2 Infrastructure Register and relate to the physical constraints of high speed operation, energy consumption and command, control and signalling.

OVERVIEW OF THE PROJECT DOCUMENTS

This Section sets out a summary of certain provisions of the Project Documents relating to HS1. It does not describe all of the provisions contained in those documents, but it does set out all material considerations, when read with other relevant sections of this Prospectus, for the purpose of making an investment decision.

HS1’s key contractual relationships are discussed in this section of the Prospectus.

The Concession Agreement

Parties and term

The Concession Agreement is expressed to set out the terms on which certain rights and obligations originally contained in an agreement dated 28 September 2003 (known as the S1 Agreement) and an agreement dated 6 August 2008 (known as the S2 Agreement) continue to remain in force and effect or are amended. It is an agreement between the Secretary of State and HS1 dated 14 August 2009, as amended on 16 July 2010 and 27 August 2010, pursuant to which, amongst other things, the Secretary of State grants HS1 a concession to operate, maintain and renew High Speed 1 for a fixed period of time.

The ORR is not a party to the Concession Agreement, but in accordance with the Access Regulations, the ORR is expressed to be responsible for carrying out functions which certain clauses and schedules of the Concession Agreement indicate it is to carry out – see “*Role of the ORR*” below. The ORR has the right to enforce such rights as have been granted to it under the Concession Agreement.

The Concession Agreement grants to HS1 the HS1 Concession on terms that it will expire on 31 December 2040 unless terminated earlier pursuant to its terms or by agreement between the parties. HS1 has certain responsibilities in respect of licences, consents and undertakings which were given with respect to the construction of High Speed 1. It also contains an undertaking from the Secretary of State not to support any application for financial or other assistance in relation to an existing railway in the area of the M25 and the Channel Tunnel which might allow for line speeds of more than 200km an hour.

Minimum Operational Standards

HS1 is to comply with minimum operational standards (the “**Minimum Operational Standards**”). The Minimum Operational Standards require that HS1 provides or procures the provision of sufficient infrastructure capability and line speeds on High Speed 1 for international, domestic and freight services to allow certain train service objectives to be met. These objectives include providing or procuring the provision of:

- (a) sufficient infrastructure capability and line speeds on High Speed 1:
 - (i) for a total of at least 20 trains per hour in each direction travelling between St Pancras International and the Channel Tunnel without stopping at three minute headways at a maximum speed of 300 kilometres per hour for international services;
 - (ii) for a total of at least 16 trains per hour in each direction travelling between St Pancras International and Ashford International without stopping at three minute headways at a maximum speed of 225 kilometres per hour for domestic services; and
 - (iii) trains of up to 1,600 tonnes each to travel at a maximum speed of 140 kilometres per hour between the Channel Tunnel “boundary” and the point on High Speed 1 at which the freight chords leave the mainline at Ripple Lane; and
- (b) the station facilities at the HS1 Stations and Ashford International (unless otherwise agreed between the Secretary of State and HS1).

The Minimum Operational Standards do not require HS1 to provide or procure the provision of infrastructure capacity for international and domestic services to run simultaneously.

The Minimum Operational Standards specify that sufficient infrastructure capacity and line speeds is provided such that specified performance levels can be achieved. These performance levels are the “**Three Month Performance Floor**” and the “**Annual Performance Floor**”. The Three Month Performance Floor is no more than 15 per cent. in aggregate of the timetabled train services for the three months in question being delayed where wholly or mainly attributable to HS1. The Annual

Performance Floor is no more than 13 per cent. of train services in a given year are delayed in that year where wholly or mainly attributable to HS1 or due to a certain number of unidentified events.

These performance floors do not relate to the availability of the HS1 Stations or Ashford International. The unavailability of any of these stations for any reason - see "*Risk Factors - Commercial and Business Risks – Risk of High Speed 1 being unavailable to train operators*" - would not be factored into HS1's performance for comparison against these performance floors.

The table below shows the actual performances against the relevant performance floors:

	Floor	Actual Performance											
		Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12
3 Month Performance	15%	0.81%	0.44%	0.53%	0.16%	0.58%	0.66%	1.02%	0.21%	0.37%	0.38%	0.53%	0.28%
Annual Performance	13%	0.75%	0.43%	0.43%	0.43%	0.43%	0.51%	0.51%	0.51%	0.51%	n/a	n/a	n/a

Source: HS1

HS1 is required to monitor the performance of train services in accordance with the terms of relevant Track Access Agreements and to determine whether it has achieved the Three Month Performance Floor and Annual Performance Floor. HS1 must provide certain written performance reports to the Secretary of State and ORR. There are also provisions for cooperation with any audit by the ORR. If HS1 has failed to provide or procure sufficient infrastructure capability for High Speed 1 to meet either the Three Month Performance Floor or Annual Performance Floor, then the ORR must implement the Enforcement Procedure.

Asset Stewardship

Asset Stewardship Duty

HS1 is to operate, repair and maintain the High Speed 1 assets in accordance with best practice, in a timely, efficient and economical manner, and keep them in good condition and so as to meet all relevant safety standards so that:

- (a) HS1 can meet its obligations under the Concession Agreement; and
- (b) on termination or expiry of the Concession Agreement, a successor can take over the business of providing the operation, maintenance and renewal at any time, and as a going concern,

(the "**HS1 General Duty**").

Key elements of the asset stewardship obligations include the production of:

- (a) an asset management strategy describing HS1's general operation, maintenance and renewals principles and procedures (the "**Asset Management Strategy**");
- (b) an Asset Management Annual Statement that sets out details of the operational, maintenance and renewal costs incurred and upgrades carried out in the relevant year and such costs to be incurred and upgrades to be carried out in the next (the "**Asset Management Annual Statement**"); and
- (c) a five-year asset management statement that sets out, amongst other things, HS1's proposals for the next Control Period (the "**Five Year Asset Management Statement**").

The ORR will use the Five Year Asset Management Statement submitted to it in conducting the relevant Periodic Review – see "*Economic regulation – Periodic Reviews*" below. Each such statement is capable of being iterated three times at the requirement of the ORR. The objective during any ORR review of any such statement and its possible iteration is for the ORR to be able to conclude that each such statement "*is consistent with the HS1 General Duty*". Where the ORR does conclude

that a Five Year Asset Management Statement is consistent with the HS1 General Duty, it must approve that statement and HS1 must thereafter comply with its terms. This appears to turn the obligations set out in the Five Year Asset Management Statement into contractual obligations, and to constrain HS1 to deliver those obligations throughout the next Control Period only in the manner it contemplated at the time of the preceding Periodic Review.

Where the ORR is unable to approve any statement, it is to provide HS1 with reasons and details of deficiencies. Where a statement has been fully iterated, or where HS1 fails to produce any such statement or respond to the ORR's requirements in a timely manner, the ORR may have recourse to the Enforcement Procedure – see “*Enforcement and termination – Enforcement Procedure*” below.

The only contemplated outcomes of the ORR's review of any Five Year Asset Management Statement are the ORR approval of that statement (as originally submitted or as revised by HS1) and ORR enforcement where it is not approved for any reason.

Role of the ORR

The most significant of the ORR's functions under the Concession Agreement are:

- (a) its oversight of the economic regulation of the operational, maintenance and renewal charges that HS1 may levy on TOCs under track access agreements for access to High Speed 1 through the carrying out of Periodic Reviews and other reviews; the ORR has no power under the Concession Agreement to regulate the level of IRC that HS1 may levy on TOCs (although see “*Upgrades*” below in relation to the charging of any additional IRC); and
- (b) its implementation of the Enforcement Procedure – see “*Enforcement and termination – Enforcement Procedure*” below to ensure that HS1 complies with certain obligations under the Concession Agreement, the most significant of which are:
 - (i) HS1's asset stewardship duty (including its duty to operate, maintain, renew and replace and to plan and carry out upgrades of, including any Specified Upgrades, High Speed 1, and to do so as if HS1 were responsible for the stewardship of High Speed 1 for the period of 40 years following the date that any such activities are planned or carried out); and
 - (ii) HS1's duty to provide minimum operational standards in relation to infrastructure capability, performance and stations (see “*Minimum Operational Standards*” above).

Economic regulation

Charging framework

The Concession Agreement sets out the charging framework that the Secretary of State is required to introduce for the purposes of the Access Regulations – see “*Regulatory Framework – ORR's Regulatory Statement – Charging Framework*” above. HS1 may only levy charges on TOCs for access to High Speed 1 in accordance with that charging framework. Those charges are payable by TOCs under the terms of their Track Access Agreements. Charges include the IRC and a charge relating to operational, maintenance and renewal costs (“**OMR Costs**”) for High Speed 1, including in relation to St Pancras International, Ebbsfleet International and Stratford International, - the OMRC. The OMRC may cover, amongst other costs, costs relating to meeting the performance standards, asset condition and handback condition of High Speed 1 required by the Concession Agreement.

HS1 may apply discounts and mark ups but only in accordance with the requirements of the Access Regulations.

An additional investment recovery charge may be levied by HS1 if, over the life of the Concession Agreement and subject to its terms, further investment in relation to High Speed 1 is approved or

required. In the event of such further investment, HS1 may, subject to ORR approval, take into account the long term costs associated with that investment in calculating any IRC.

The OMRC is divided into a separate:

- (a) operating and maintenance element; and
- (b) renewal and replacement element for the purpose of funding the substitution or replacement of any asset comprising High Speed 1 with an asset or part of the same type or equivalent (“**Renewals and Replacements**”).

The funds to be applied for carrying out Renewals and Replacements are to be segregated into the Renewals Escrow Account until those funds are required by HS1.

Management arrangements in relation to the Renewals Escrow Account include powers for HS1 in respect of how account balances may be invested during periods when they are not required to fund Renewal and Replacement activities. The proceeds of investment are returned to the account on maturity, and the earnings credited to the account are taken into account at a review when considering future levels of OMRC. There is no express provision which places HS1 at risk over whether interest and earnings on the account fall short of an assumed level, nor express provision for HS1 to benefit from any outperformance there may be of expectations.

The Renewals Escrow Account is funded on an annuity basis with a 40-year look forward period, with the intent that it will always be in sufficient funds to meet Renewals and Replacements requirements. During each Periodic Review, the amount standing to the credit of the Renewals Escrow Account is taken account of in the agreement or determination of the Aggregate OMRC.

Any monies in the Renewals Escrow Account at the end of the Control Period that HS1 believes will not be required in order to carry out Renewals and Replacements after the end of that Control Period are, subject to the ORR’s reasonable consent, classified as “**Costs Savings**” and are to be shared between TOCs and HS1 on a 70:30 basis. The TOC’s share is allocated by HS1 by way of a reduction of the Renewal and Replacement element of future OMRC. HS1’s share (the “**Performance Incentive Share**”) is made only at the end of the Control Period after the Control Period in which the Costs Savings are realised, notwithstanding the mostly fixed nature of the pricing of operating and maintenance activities under the Operator Agreement. Any Performance Incentive Share is only made on HS1 providing satisfactory evidence and the ORR determining that:

- (a) HS1 has complied with its HS1 General Duty, the Asset Management Strategy and “*in particular the Five Year Asset Management Statement*”;
- (b) the Costs Savings were achieved accordingly; and
- (c) the Renewals Escrow Account balance (allowing for funding in the next Control Period and withdrawals for incentive shares to HS1) is consistent with enabling HS1 to comply with its HS1 General Duty in relation to Renewal and Replacements.

There is broadly equivalent provision for HS1 to share in prospective Costs Savings that are to be realised after the HS1 Concession where activities which have been carried out before the end of the HS1 Concession would, in the reasonable opinion of the ORR, be expected to result in efficiencies or Costs Savings that arise after the end of the HS1 Concession.

Incentivisation of the infrastructure manager

The incentives to reduce the costs of provision of infrastructure and the level of access charges that HS1 must be provided with by the ORR (see “*Regulatory Framework – ORR’s Regulatory Functions and Duties – Duty to incentivise the infrastructure manager*” above) are achieved through a combination of HS1’s obligations under the Concession Agreement and by virtue of the ORR

exercising its rights and responsibilities in relation to those obligations under the Concession Agreement including its rights in relation to Periodic Reviews.

Periodic Reviews

The Periodic Review provisions in the Concession Agreement are binding as between the Secretary of State and HS1, but they do not bind the ORR contractually, nor confer contractual rights on HS1 in respect of the ORR. They do however place the Secretary of State and HS1 under obligations (in accordance with their terms) to the ORR.

The purpose of any Periodic Review is stated to be for the ORR to approve HS1's proposals for, or for the ORR to determine, the OMR Costs that would be incurred by an efficient operator of High Speed 1 (excluding stations) in the next Control Period and agree or determine an amount consistent with this level (the "**Aggregate OMRC**") that HS1 may levy in aggregate on TOCs under the terms of their Track Access Agreements. See "*Regulatory Framework – Published criteria and procedures for the approval of track access contracts*" above in relation to the ORR's stated objective regarding the level of HS1's revenue for the purposes of operating, maintaining and renewing High Speed 1.

The principal input to any Periodic Review is expected to be HS1's Five Year Asset Management Statement. The scope of each such statement appears to constitute the list of relevant matters which the ORR is expected to approve or determine as part of the relevant Periodic Review.

Aggregate OMRC is to be set at the level needed to provide for OMR Costs:

- (a) taking into account:
 - (i) Renewals Escrow Account balances that are available for the purpose of carrying out Renewals and Replacements;
 - (ii) any financial support made or to be made by the Secretary of State for the purpose of meeting any costs associated with a Paragraph 2 Change (see "*Government's Financial Support for Changes in Circumstances*" below);
 - (iii) the OMRC payable under Track Access Agreement; and
 - (iv) any warranty, insurance or negligence claims in respect of High Speed 1; but
- (b) not taking into account any other revenue or capital receipt whatsoever.

Interim Reviews

HS1 may apply to the ORR for an interim review of the level of Aggregate OMRC that HS1 may levy (an "**Interim Review**") where:

- (a) due to circumstances outside HS1's control, there has been a material and significant change to the circumstances on the basis of which Aggregate OMRC was set; and/or
- (b) there has been a Paragraph 2 Change with a 30 per cent. or greater increase in Aggregate OMRC,

such that in either/both cases, Aggregate OMRC for the current Control Period is materially insufficient to enable HS1 to comply with its HS1 General Duty.

HS1's application for an Interim Review must be supported by details of the relevant change, the activity and cost impact of the change, and either:

- (a) a proposed Aggregate OMRC level for the remainder of the Control Period; or

- (b) a proposal to reset the Control Period so that a new five-year period commences upon the conclusion of that Interim Review, supported by a new Five Year Asset Management Statement.

There is provision for several levels of iteration between HS1 and the ORR about the submission made by HS1. The objective is for the ORR either to declare itself satisfied with the submission or to provide reasons why it is not. Where it is satisfied, then HS1 proceeds on the basis of the submission. Where the ORR is not satisfied, HS1 may resubmit in amended form on up to two more occasions. The process concludes with one of the following: ORR satisfaction and permission for HS1 to charge TOCs a higher amount of OMRC, acceptance by HS1 that it cannot raise the level of OMRC it charges TOCs or HS1 challenging the ORR's decision to refuse it permission to charge such a raise. Any challenge is brought on judicial review grounds, which include challenging errors of law, failure to follow due process and/or taking unreasonable decisions.

Government's financial support for Changes in Circumstances

The Concession Agreement entitles HS1 to limited financial support from the Secretary of State in the context of certain changes in circumstances, each called a "**Paragraph 2 Change**". Paragraph 2 Changes include:

- (a) relevant changes in law or taxation;
- (b) hostilities or civil disorder;
- (c) certain force majeure events which directly cause HS1 to be unable to comply with all or a material part of its Concession Agreement obligations;
- (d) increased safety obligations;
- (e) partial sequestration; and
- (f) any determination by the Secretary of State under the Interoperability Regulations that the whole or part of any of the TSI Derogations shall not apply to High Speed 1.

The support that is available in relation to a Paragraph 2 Change comprises:

- (a) any estimated change in operating, repairs and maintenance costs of the "**HS1 Assets**" (which comprise the track signalling and other equipment that constitutes High Speed 1, HS1 Stations and the HS1 Land and subsequent assets used by HS1 to perform the Concession Agreement, less the aggregate of any estimated reduction in operating, repairs and maintenance costs of the HS1 Assets and net of any increases in revenue ("**Estimated Change in Operating Costs**");
- (b) any capital expenditure (as determined in accordance with UK GAAP) ("**Capital Expenditure**") which directly results from a Paragraph 2 Change; and/or
- (c) any future loss of revenue arising in respect of the remaining term of the Concession Agreement arising from a Paragraph 2 Change or a Government's Change (including any reduction in the IRC element, car parking revenues, retail revenues and advertising revenues) net of any related reduction in costs arising from the same Paragraph 2 Change or (as the case may be) Government's Change ("**Loss of Revenue**"). See "*Government's Change*" below for an explanation of a Government's Change.

Financial support for any Estimated Change in Operating Costs is only available to the extent that the ORR determines that:

- (a) it is not OMRC;

- (b) it is OMRC but is not likely to be capable of being borne by TOCs using High Speed 1; or
- (c) it is OMRC (in whole or part) and is likely to be capable of being borne by TOCs using High Speed 1, but is also likely to represent more than 30 per cent. of OMRC for the Control Periods in question.

Financial support for any Capital Expenditure is only available to the extent that the ORR determines that:

- (a) it is not OMRC; and
- (b) it is not off-set by any Capital Expenditure no longer required as a result of the Paragraph 2 Change.

Where the ORR determines that financial support is available from the Secretary of State because the Estimated Change in Operating Costs arising from a Paragraph 2 Change is OMRC (in whole or part), is likely to be capable of being borne by TOCs using High Speed 1, but is also likely to represent more than 30 per cent. of OMRC for the Control Periods in question, then the Secretary of State will share responsibility for the additional operating costs with HS1. HS1's share in these circumstances is (i) 30 per cent. of the OMRC for the Control Periods in question plus (ii) 20 per cent. of the amount by which the Estimated Change in Operating Costs would exceed this threshold, excluding the consequences of the relevant Paragraph 2 Change.

Where the ORR determines that financial support is available from the Secretary of State for any other reason, then HS1's share is 20 per cent. of the Estimated Change in Operating Costs, Capital Expenditure or Loss of Revenue, except HS1's share is zero where the Paragraph 2 Change in question is partial sequestration or the loss of a TSI Derogation.

HS1's liability in relation to a Paragraph 2 Change is subject to an overall limit of £6 million (expressed in month 4, 2009 prices) per Control Period.

Where financial support is available it is payable in such instalments and at such times as the parties may agree acting reasonably, on the basis that HS1 shall be in no better and no worse a position in respect of the costs concerned than it would have been had the Paragraph 2 Change not occurred. Where the parties are unable to agree, the dispute resolution procedure set out in the Concession Agreement is to apply.

Government's Change

The Secretary of State has the right to require changes to the subject matter of the Concession Agreement which is not a Paragraph 2 Change or a Paragraph 3 Change (see "*Enforcement and termination – Grounds of termination*" below) (a "**Government's Change**"). Provisions relating to Government's Change and payment are brief and general.

The Secretary of State may "*for any reason*" give notice proposing a Government's Change. There is closed list of circumstances entitling HS1 to object to a Government's Change. These relate to:

- (a) infringement of law or best practice;
- (b) requiring an unobtainable consent or involving the loss of an existing consent;
- (c) any material and adverse impact on HS1's ability to perform in accordance with the Concession Agreement;
- (d) any material and adverse impact of health and safety;
- (e) any requirement to implement the change in an unreasonable period of time; and

- (f) any material and adverse change in the nature of the concession (including its risk profile), or HS1's business and activities.

Any dispute as to the existence of one or more of these grounds may be referred to the dispute resolution procedure specified in the Concession Agreement. Where in relation to a Government's Change notified by the Secretary of State, none of these grounds apply HS1 must proceed with that Government's Change. Where HS1 is required to proceed then:

- (a) the parties must discuss and agree any Estimated Change in Operating Costs, Loss of Revenue, Capital Expenditure and ways of mitigating these effects;
- (b) the Secretary of State must pay such amounts in such instalments and at such times as the parties may agree acting reasonably on the basis that HS1 shall be in no better and no worse position than it would have been had the Government's Change not occurred in respect of Estimated Change in Operating Costs, Loss of Revenue and Capital Expenditure;
- (c) where the parties cannot agree to the instalments and/or times for payment, such disagreements shall be determined under the Dispute Resolution Procedure; and
- (d) where these matters have been agreed or it has been determined following referral under the dispute resolution procedure, then HS1 must implement the Government's Change as soon as reasonably possible.

Upgrades

HS1 may levy an additional investment recovery charge from TOCs in relation to further investment in High Speed 1 or related facilities.

Such investment may relate to "**Specified Upgrades**" (which include major upgrades to the signalling system, control systems or trackform of High Speed 1 and/or the wider Network Rail infrastructure) or any other upgrade to High Speed 1, whether requested by the Secretary of State as a Government's Change, or planned by HS1 (or NR(HS)) pursuant to its HS1 General Duty.

The Concession Agreement sets out a process for HS1 to seek ORR approval for the implementation of the relevant upgrade and the levying of an additional investment recovery charge (unless, in the case of a Government's Change, the cost of the relevant upgrade is borne directly by the Secretary of State). An upgrade may be proposed at any time, either independently from, or as part of the Periodic Review process.

Enforcement and termination

Enforcement Procedure

The Concession Agreement sets out a procedure under which the ORR can take action against HS1 to require HS1's compliance with certain terms of the Concession Agreement (the "**Enforcement Procedure**"). Under the Enforcement Procedure, the ORR is entitled to issue:

- (a) a final order (a "**Final Order**") where it is satisfied that HS1 is contravening, or is likely to contravene, any of the provisions of the Concession Agreement to which the Enforcement Procedure applies; or
- (b) a provisional order (as an interim measure) (a "**Provisional Order**") where it appears to the ORR that such contravention is occurring or is likely to occur and that urgent action is required having regard in particular to the extent to which any person is likely to sustain loss or damage as a consequence of the contravening actions before a Final Order can be made.

A Provisional Order may be issued without any necessary preparatory action and is binding for its duration, but cannot have effect for more than three months (or such shorter period as the order may specify) without being confirmed in a Final Order.

Before issuing a Final Order (or confirming a Provisional Order), the ORR must provide notice to HS1 of its proposal to take such action. HS1 is entitled to reply within that notice period, making representations in relation to the proposed order, and the ORR is required to take those representations into account before:

- (a) proposing modifications to the order (to which HS1 must be given a further opportunity to respond);
- (b) deciding not to issue the order; or
- (c) if it believes HS1 is not taking all appropriate steps to secure compliance with the relevant provisions, making or confirming the relevant order.

The ORR (and HS1) must provide the Secretary of State with a copy of any Provisional Order or Final Order that may be issued. The Secretary of State may then provide written representation to the ORR in respect of the same. Further, the Secretary of State and HS1 are each expressly granted a right to refer the matter to judicial review at any time within three months of issue of the relevant order.

Grounds of termination

The Concession Agreement may be terminated by HS1 as a result of certain changes in circumstances known as “**Paragraph 3 Changes**”, or by the Secretary of State pursuant to certain HS1 events of default, each an “**HS1 Event of Default**”.

Paragraph 3 Changes comprise (i) repudiatory breach by the Secretary of State (ii) total sequestration of the whole or a material part of certain specified key assets (iii) adverse relevant change in law (iv) a declaration of state aid (v) the setting aside of any of the Concession Documents by the Secretary of State due to a finding of the European Court of Justice or the parties agreeing that such an outcome is likely (vi) any action by the European Commission or national competition authority that would prevent the operation of any Concession Document or the parties agree that such an outcome is likely and (vii) unavailability of insurances and the Secretary of State refuses to insure against the risks those insurances would have covered.

HS1 Events of Default comprise: (i) typical insolvency-type events, but including the appointment of a special railway administrator (ii) HS1 selling, transferring, leasing or otherwise disposing of the whole or any material part of its respective undertakings, rights, or assets (iii) a non-permitted change in ownership (iv) a “particularly serious” default in relation to HS1’s obligations under the Concession Agreement (subject to certain carve-outs) or the other Concession Documents (which is sufficiently serious in the context of the totality of the specific agreement) (v) unavailability of insurance in respect of a material risk to the HS1 Assets, the “**Ashford International Assets**” (which comprise Ashford International and all other assets at Ashford International used in the performance of the Concession Agreements) or to carrying out the requirements of the HS1 Concession where caused by HS1 or others for whom HS1 is responsible (vi) failure by HS1 to comply with a Final Order or Provisional Order (see Termination without compensation below) subject to certain caveats and within specified timeframes.

Compensation payable on termination

Termination pursuant to a Paragraph 3 Change entitles HS1 to compensation, the level of which varies according to the particular Paragraph 3 Change. Compensation levels are as follows:

- (a) where the Paragraph 3 Change is any of:
 - (i) a repudiatory breach by the Secretary of State;

- (ii) the total sequestration of the whole or a material part of certain specified key assets;
- (iii) certain specified materially adverse changes in law; or
- (iv) financial assistance or other aid provided to HS1 is considered state aid,

then the Secretary of State must pay to HS1 the “**Default Compensation Termination Amount**”; or

- (b) where the Paragraph 3 Change is any of:
 - (i) the Secretary of State being required to set aside any Concession Documents by reason of a finding of the European Court of Justice;
 - (ii) the European Commission or a national competition authority taking action which prevents or is likely to prevent the operation of any of the Concession Documents; or
 - (iii) the unavailability of certain specified material insurances, where such unavailability is not caused by HS1 or any party for which it is responsible (including subcontractors),

then the Secretary of State must pay to HS1 the “**Non-Default Compensation Termination Amount**” (see the next-but-one paragraph below).

The Default Compensation Termination Amount comprises:

- (a) the “**Base Senior Debt Termination Amount**”;
- (b) redundancy payments and “**Sub-Contractor Breakage Costs**” (meaning losses properly and reasonably incurred by HS1 that directly result from termination of the Concession Agreement and include sums placed under sub-contracts that cannot be cancelled or terminated and expenditure incurred in anticipation of future performance of the Concession Agreement); and
- (c) the “**Equity Amount**”, which is defined as being the discounted sum of the forecast annual cash flows of HS1, less annual interest and principal payments due on senior debt.

The Non-Default Compensation Termination Amount comprises:

- (a) the Base Senior Debt Termination Amount;
- (b) all amounts paid in respect of the acquisition of shares in HS1 less dividends and other distributions; and
- (c) redundancy payments and Sub-Contractor Breakage Costs.

The Base Senior Debt Termination Amount comprises:

- (a) all debt amounts outstanding from HS1 to its senior lenders, including interest; and
- (b) subject to a duty to mitigate, all amounts payable by HS1 to those senior lenders as a result of prepayment of that debt, including costs of early termination of any interest rate hedging arrangements and other breakage costs where reasonably incurred, on commercial terms and payable on prepayment or early termination (as appropriate),

less (where (c) to (e) inclusive are positive) the aggregate of:

- (c) all credit balances held by or on behalf of HS1;

- (d) all amounts payable by those senior lenders to HS1 as a result of prepayment of that debt, including costs of early termination of any interest rate hedging arrangements and other breakage costs where reasonably incurred, on commercial terms and payable on prepayment or early termination (as appropriate); and
- (e) all other amounts received by those senior lenders as a result of enforcing any other right they have.

Termination without compensation

Where the Secretary of State duly terminates the Concession Agreement upon the occurrence of any HS1 Event of Default, he is not obliged to pay compensation to HS1. In addition, HS1 shall be liable to pay damages to the Secretary of State (but shall be entitled to have set against those damages, the value of those assets of HS1 that the Secretary of State has acquired on termination).

In the circumstances of the occurrence of a HS1 Event of Default, HS1's ability to remedy the breach that gives rise to the right of termination varies by ground for termination, as follows:

- (a) termination for insolvency or asset disposal: no right of remediation is provided and termination may be exercised with immediate effect; HS1 has the right within 10 business days of receipt of the relevant notice of termination to refer the question of whether the Secretary of State was entitled to issue such notice for resolution as a dispute; in such circumstances, termination does not occur until such dispute has been finally resolved; HS1 also has the right to seek injunctive or declaratory relief in relation to such purported termination;
- (b) termination for failure to comply with a Provisional Order or Final Order; no right of remediation is provided and termination may be exercised with immediate effect; in this circumstance, however, HS1 will effectively already have enjoyed a remediation period by reason of the operation of the Provisional Order and Final Order procedures – see “*Enforcement Procedure*” above;
- (c) termination due to a failure to comply with a Provisional Order or Final Order where that failure is caused by a breach by NR(HS); a breach in this context is a breach or non performance by NR(HS) of its obligations under the Operator Agreement which gives rise to a breach by HS1 of the Concession Agreement and in turn, the issue of that Provisional Order or Final Order; where the terms of such order require HS1 to terminate the Operator Agreement and enter into a new one with a replacement Operator, the Secretary of State will be entitled to terminate the Concession Agreement in these circumstances if HS1 has failed to comply with that order; and
- (d) all other grounds of termination; for all other grounds, HS1 is entitled to attempt remediation; in these circumstances, HS1 is entitled to 65 business days in which to remedy, or to put forward a “reasonable programme” for remedying, the relevant breach; where HS1 proposes a remediation programme, the Secretary of State has 20 business days in which to accept or reject it. If he should reject it, there is a further period of five business days in which the parties seek to agree amendments to the programme to render it acceptable, failing which the question of whether or not the programme is capable of remedying the breach is determined via the dispute resolution procedure.

Handover on termination

HS1 has obligations to operate, maintain and repair High Speed 1 as a going concern in order that its business can be transferred on the expiry or termination of the HS1 Concession and continued immediately thereafter. In order to effect such a transfer, HS1 has to cooperate with the Secretary of State and take such steps as he may reasonably request (both before and after expiry or termination) to ensure continuity and the orderly handover of control.

Part of complying with the going concern obligation involves the ongoing obligation on HS1 to operate, maintain, renew and replace High Speed 1 on the basis that it is responsible for the stewardship of High Speed 1 for the period of 40 years. HS1 must do this even where, at the time of consideration, there is less than 40 years left of the HS1 Concession for HS1 to operate, maintain, renew and replace High Speed 1. HS1 also makes payments into and withdrawals from the Renewals Escrow Account in order to fund the costs of ongoing Renewals and Replacements. That account is reviewed every five years to ensure funds are sufficient for that purpose in order, amongst other things, to avoid any dilapidations-type risks materialising at expiry/termination. On expiry or termination, the funds in the Renewals Escrow Account are released to the Secretary of State, subject to any share that HS1 might be entitled to (e.g. the Performance Incentive Share). The Secretary of State will then be able to deploy those funds in a new escrow account for use by the successor concessionaire to operate High Speed 1.

There are also specific obligations at the end of the HS1 Concession to, amongst other things: (i) maintain or deliver up records (ii) to terminate or novate to the Secretary of State the HS1 Lease and the various station leases and (iii) to use all reasonable endeavours to make available to the Secretary of State, HS1 staff at no less favourable terms than those on which such staff were employed prior to expiry / termination.

Secretary of State step in

The Secretary of State has his own emergency rights to step in under the terms of the Concession Agreement (irrespective of whether HS1 is in default) to ensure continuity of service where HS1 fails (and such failure is caused wholly or mainly by an act or omission of HS1) to provide the relevant infrastructure capability comprised in the Minimum Operational Standards for a period of three consecutive days or more, and where the Secretary of State considers it necessary for reasons of safety, security, defence, emergency, illegality or the inability of TOCs to use High Speed 1.

The ability of the Secretary of State to step in arises only from a loss of infrastructure capability caused by performance which is within HS1's, albeit indirect, control. Where the Secretary of State has stepped in, HS1 has the opportunity to propose the resumption of operation where HS1 reasonably believes that it can effect infrastructure capability that will enable 50% (or a lower agreed percentage) of timetabled train services to run. The Secretary of State must act reasonably in considering whether HS1 could indeed resume operations as proposed.

Where the Secretary of State has exercised his emergency rights to step in for an aggregated period of two months in any rolling two year period (excluding any period of Secretary of State step in), then the ORR is obliged to implement the Enforcement Procedure under the Concession Agreement.

Subject to an HS1 duty to mitigate, the Secretary of State reimburses HS1 for any additional costs HS1 incurs as a consequence of the Secretary of State's step in that are over and above what HS1 would otherwise have incurred.

Certain other provisions

Liability

Subject to express contrary provision, neither party is to have liability to the other in respect of any indirect or consequential loss or damage. HS1 also indemnifies the Secretary of State in respect of loss or damage arising out of any breach by HS1 of its obligations under the Concession Agreement and related documents.

Insurance

HS1 is obliged to take out and maintain certain insurance cover (business interruption, public and products liability, employer's liability and motor), and to maintain the Secretary of State, his employees and agents as additional named insureds.

The obligations of HS1 to put in place the required insurances are only to the extent that any such required insurance is available to infrastructure operators at a commercial price and on commercial terms. HS1 will not be in default of the Concession Agreement (entitling the Secretary of State to terminate) where the required insurances are not available at such price and on such terms, except where that unavailability (i) concerns a material risk to High Speed 1, the HS1 Concession or the relevant assets and (ii) is caused by any act or omission of HS1 or related parties. There is an opportunity where HS1 considers that a required insurance is not available at a commercial price and on commercial terms and this is not due to its act or omission, for the Secretary of State to insure instead until commercial insurance is available. If the Secretary of State refuses to insure, it is a Paragraph 3 Change. The occurrence of a Paragraph 3 Change will entitle HS1 to terminate the Concession Agreement subject to conditions, upon which compensation will be payable – see “*Enforcement and termination – Compensation payable on termination*” above.

The Domestic Underpinning Agreement

Purpose

The Secretary of State and HS1 entered into a supplemental agreement to the Concession Agreement on 27 August 2010 (the “**Domestic Underpinning Agreement**”). The Domestic Underpinning Agreement sets out a collateral undertaking from the Secretary of State in favour of HS1 for the purpose of underpinning the payment of track and station access charges for domestic railway passenger services on High Speed 1.

Domestic underpinning

The undertaking given by the Secretary of State in the Domestic Underpinning Agreement provides, in broad terms, that the Secretary of State will pay HS1 sums (“**Underpinning Payments**”) where the level of domestic passenger services being operated on High Speed 1 is not at least equivalent to a specified baseline level of domestic passenger services, expressed in terms of service frequency and pattern (the “**Baseline Domestic Services**”).

Specifically, the Secretary of State will pay HS1 Underpinning Payments if during any Advance Period:

- (a) the Secretary of State specifies that a lower level of domestic passenger services will utilise High Speed 1 than the Baseline Domestic Services;
- (b) the Secretary of State specifies that a level of domestic passenger services will utilise High Speed 1 at a level that is equivalent to the level of the Baseline Domestic Services, but TOCs have not committed to provide a level of domestic passenger services at the level of the Baseline Domestic Services; or
- (c) the Secretary of State specifies that a level of domestic passenger services will utilise High Speed 1 at a level that is equivalent to the level of the Baseline Domestic Services and TOCs have committed to provide a level of domestic passenger services at the level of the Baseline Domestic Services, but those TOCs are in default of those commitments and the Secretary of State has not taken reasonable steps to require that default to be remedied.

An “**Advance Period**” in the context of the Domestic Underpinning Agreement comprises any of the first three railway periods, the second three railway periods, the third three railway periods or the last four railway periods of any rail year that occur after the expiry of the LSER FTAA, but before the expiry or earlier termination of the Concession Agreement. A railway period is usually 28 days in duration (a “**Railway Period**”). The Domestic Underpinning Agreement does not therefore provide HS1 with the protection of Underpinning Payments in the period prior to the expiry of the current LSER FTAA, which is coterminous with the IKF Franchise, but see “*The LSER Side Letter*” below.

The Underpinning Payments are equivalent to those track access charges and station access charges that would have been payable to HS1 in the relevant Advance Period had the Baseline Domestic

Services been provided on High Speed 1 by a TOC, less the track access charges that were payable to HS1 in the same period in relation to High Speed 1 (whether or not they are actually paid). There are special provisions affecting the level paid by the Secretary of State to deal with:

- (a) services between St Pancras International and Ashford West Junction and St Pancras International and Springhead Road Junction; and
- (b) the unavailability of High Speed 1.

HS1 must pay the Secretary of State a rebate on any Underpinning Payments made where during an Advance Period, the level of international services is such that there is insufficient capacity available to operate the level of Baseline Domestic Services in full. The rebate is calculated by reference to certain components that make up the overall access charges. HS1 has an obligation to use reasonable endeavours to sell capacity on High Speed 1 so as to maximise the amount of rebate payments payable to the Secretary of State.

Subject to requests for further information or disputes, the Secretary of State must pay the sums requested by HS1 prior to the start of each Advance Period. Rebates are payable by HS1 after the end of each Advance Period.

Duration

The domestic underpinning undertaking given by the Secretary of State in the Domestic Underpinning Agreement ceases to have effect on the expiry or earlier termination of the Concession Agreement.

The LSER Side Letter

By a letter of comfort to HS1 dated 14 July 2010 (the “**LSER Side Letter**”), the Department for Transport confirmed that the Secretary of State would not agree to a reduction in the level of domestic services below the level of the Baseline Domestic Services in the period from the date of that letter until the termination of the current LSER FTAA. The LSER Side Letter ceases to have effect on application of the Domestic Underpinning Agreement.

The Operator Agreement

Parties and term

HS1 entered into an agreement with NR(HS) dated 27 June 2002, as amended and restated on 28 September 2003, 14 May 2010, 12 December 2010 and 3 April 2012 (the “**Operator Agreement**”) under which HS1 sub-contracted the Concession Agreement obligations to operate, maintain, renew and replace High Speed 1 (the “**Operator Services**”) to NR(HS) as “**Operator**”. The Operator Agreement expires on 31 December 2047, which is longer than the term of the Concession Agreement. To deal with this overlap, under the Financiers’ Operator Agreement Direct Agreement and the Operator Agreement, if the Secretary of State or the HS1 Security Trustee fails to step into, or novate, the Operator Agreement immediately following expiry of the Concession Agreement, HS1 will not have any future rights or obligations under the Operator Agreement following the expiry of the Concession Agreement.

Operator’s obligations

Obligations

In performing its obligations under the Operator Agreement, NR(HS) commits under its terms to:

- (a) act in accordance with best practice, or where best practice is not established, in an efficient, diligent and prudent matter;
- (b) act in accordance with law;

- (c) put HS1 in a position so that it is able to comply with and discharge its obligations under the Concession Agreement (excluding Concession Agreement payment obligations); and
- (d) put HS1 in a position so that it is able to comply with and discharge its obligations:
 - (i) as an infrastructure manager;
 - (ii) under the Interoperability Regulations; and
 - (iii) the HS1 Network Code.

NR(HS) is charged under the Operator Agreement with performing HS1's obligations under certain delegated agreements and documents, for example, the LSER FTAA, the EIL FTAA, the HS1 Network Code and the NR Operation and Maintenance Agreement between NRIL and HS1, with certain key rights (see below) reserved for HS1.

NR(HS) is obliged to comply with any Final Order or Provisional Order issued by the ORR to HS1 as if such order was issued to NR(HS).

NR(HS) is also obliged to cooperate with HS1's reasonable requests in relation to each Periodic Review. This includes the requirement to attend any relevant meetings and provide information and analysis that will assist the ORR in its deliberations. Special provision is made for the Periodic Reviews that are conducted up to the end of Control Period 3. Whilst HS1 retains responsibility for conducting all Periodic Reviews with the ORR, under the terms of the Concession Agreement, during those Periodic Reviews conducted in respect of Control Periods 2 and 3, HS1 has committed in the Operator Agreement to:

- (a) comply with NR(HS)'s instructions in relation to the setting of the O&M Price; and
- (b) following consultation, during which NR(HS) must have due regard to HS1's representations, submit NR(HS)'s proposal in relation to the setting of the O&M Price without amendment.

If the ORR indicates in any such Periodic Review how much of the change in OMRC should be allocated to the O&M Price, then HS1 must determine the O&M Price for the next Control Period in accordance with that indication. If the ORR does not provide this indication, HS1 must increase or decrease (as applicable) the O&M Price for the next Control Period consistently with the increase or decrease (as applicable) in OMRC determined by the ORR. NR(HS) is only able to challenge the determination of the ORR through HS1, provided NR(HS) has supporting evidence from a reputable Queens Counsel.

This allocation of responsibility is part of the agreement to discount the O&M Price, and the arrangements during Control Periods 2 and 3 providing for NR(HS) to pay HS1 an Outperformance Share, as well as restrict NR(HS)'s termination rights in relation to the setting of the O&M Price. See "*Payments – Discount*" and "*Payments – Outperformance Share*" below.

HS1 reserves the performance of certain activities, which include the marketing of High Speed 1, approving and entering into new Track Access Agreements, publishing network statements in relation to High Speed 1 and leading and managing the relationships with the ORR, the Secretary of State and other UK and European regulatory bodies ("**Front Office Activities**"). The Operator is obliged to cooperate with HS1 in the performance of the Front Office Activities.

Capital expenditure could be required as a result of determinations made by NR(HS) as the holder of the safety authorisation under the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (as amended) (the "**ROGS**"). In such capacity, NR(HS) has responsibility for the safe operation of High Speed 1, including day-to-day operations and maintenance requirements for the renewal and replacement of the infrastructure, and whether any additional infrastructure may be necessary.

NR(HS)'s duties as the holder of the safety authorisation under the ROGS are underpinned by the Health and Safety at Work Act 1974, which uses the principle “*so far as is reasonably practicable*” in relation to ensuring that health and safety risks are reduced or averted. This principle is also reflected in the safety related obligations in the Operator Agreement. Judicial determinations have previously indicated that sacrifice in terms of cost, time and trouble are relevant in considering what constitutes “*so far as is reasonably practicable*”. The Operator Agreement also contemplates NR(HS) producing a safety plan which should take account of High Speed 1 stakeholders’ requirements. Further, if additional expenditure is required as a result of legislation which increases the safety requirements above the level expected when the price was agreed, such amounts might qualify for the risk-sharing regime in the Concession Agreement (see “*The Concession Agreement – Government’s financial support for Changes in Circumstance*” above).

Standard of performance

In performing the Operator Services, NR(HS) commits under the terms of the Operator Agreement to carry out or procure the Operator Services are carried out in a manner which:

- (a) complies with its safety obligations (see the two immediately preceding paragraphs in relation to NR(HS)'s safety obligations in respect of High Speed 1);
- (b) is consistent with the HS1 Network Statement;
- (c) recognises the prestigious nature of High Speed 1 and its importance as part of the “Trans European Network” and maintains high quality in relation to its performance and maintenance;
- (d) is consistent with the operation of High Speed 1 with a high degree of reliability as a high speed railway with priority for passenger services and having due regard to the interests of HS1; and
- (e) is consistent with the declaration of HS1 as specialised infrastructure under the Access Regulations.

Payments

Fixed price

HS1 pays an annual fixed price to NR(HS) in relation to the performance of the Operator Services, payable quarterly in advance (the “**O&M Price**”). In the ordinary course, HS1 must propose the O&M Price and terms for each year in the next Control Period no later than 40 business days prior to the end of the current Control Period, however in Control Periods 2 and 3, NR(HS) is the determinant of the O&M Price – see “*Operator’s obligations – Obligations*” above.

Where HS1 is responsible for proposing the O&M Price, if NR(HS) accepts the proposed O&M Price and terms then, subject to ORR approval, the relevant O&M Price for each year of the next Control Period will be paid by HS1 to NR(HS) as described above. If NR(HS) ultimately rejects the proposed O&M Price no later than 20 business days prior to the end of the Control Period in which that O&M Price is proposed, then NR(HS) is entitled to terminate the Operator Agreement on notice – see “*Early termination – Operator rights to terminate*” below.

If the ORR determines that any Five Year Asset Management Statement submitted by HS1:

- (a) is not consistent with the HS1 General Duty, then NR(HS) must submit a new or amended statement which takes into account the ORR’s relevant comments; or
- (b) is deficient in relation to High Speed 1, then NR(HS) must submit an amended statement which remedies the relevant deficiencies.

If the ORR approves any Five Year Asset Management Statement submitted by HS1, then any former inconsistencies or deficiencies shall be deemed to be agreed. HS1 has the ability under the Concession Agreement to challenge the determination of the ORR in relation to any Five Year Asset Management Statement.

Once established, the fixed price cannot be changed by HS1 except upon request following the occurrence of a pre-specified reduction in the scope of the services that NR(HS) is required to provide. Specifically, a review of the price is possible where, due to circumstances outside HS1's control, there is a material and significant reduction in the scope of the services NR(HS) is required to provide on the basis of which HS1 agreed the fixed price. That reduction in scope must involve a material reduction in the assets comprising High Speed 1 and/or a material reduction in the number of trains running (which for the first Control Period is a reduction of 4% or more) and materially reduces the cost to NR(HS) of performing its obligations under the Operator Agreement (an "**Operator Agreement Review Event**").

The trigger for an Operator Agreement Review Event under the Operator Agreement is similar to, but not entirely consistent with the trigger for a TAA Review Event under FTAAAs or other track access agreements. See "*Framework Agreements and other track access agreements – Changes in volume impacting access charges*" below and "*Risk Factors – Regulatory Risks – Insufficient operations, maintenance and renewals income to recover costs – Mismatch between right to adjust OMRC in track access agreements and right to reduce fixed price under the Operator Agreement*". It is the case that the mechanics for change in Track Access Agreements and the Operator Agreement are themselves different, with any financial adjustment being automatic under Track Access Agreements and subject to request, debate and possible dispute resolution under the Operator Agreement.

The occurrence of an Operator Agreement Review Event and the impact on the fixed price are both capable of challenge and where this occurs, disputes must be resolved under the specified dispute resolution procedure.

Once established, the fixed price cannot be changed by NR(HS) except upon request upon the occurrence of certain specified events (each a "**Re-Opener Event**"). The most material of Re-Opener Events comprise:

- (a) insolvency type events suffered by a sub-contractor of HS1 whose services support the delivery of NR(HS)'s obligations and whose sub-contract has been novated to NR(HS), subject to the Operator mitigating;
- (b) the continuation of a force majeure event for more than 3 calendar months;
- (c) any limitation / interruption / cessation of electricity supply to the infrastructure not caused by NR(HS);
- (d) any increase in the cost of providing the Operator Services or performing its obligations in any year in excess of £600,000 due to the emergence of a latent defect (that is, a defect or deficiency in most aspects of the design, the construction or commissioning of High Speed 1);
- (e) due to circumstances outside NR(HS)'s control and the control of related entities, a material and significant change in circumstances from the circumstances that prevailed when the then current annual fixed price was agreed occurs;
- (f) a change to the infrastructure which is not a Renewal and Replacement; and
- (g) NR(HS) is obliged to carry out works / perform services which affect its safety obligations which it was not aware of and/or ought not reasonably to have been aware.

NR(HS) cannot serve a notice on HS1 seeking to re-open the O&M Price unless the occurrence of any Re-Opener Event has given rise to or will give rise to an increase in costs to NR(HS) of performing its obligations under the Operator Agreement by £50,000 (indexed) or more in relation to the relevant Re-

Opener Event (with special provision made for any Re-Opener Event relating to any latent defect), or where a Re-Opener Event occurs and those costs have already increased by £150,000 (indexed) in any Control Period because of Re-Opener Events.

The occurrence of a Re-Opener Event and the impact on NR(HS)'s costs and the associated adjustment to the fixed price are both capable of challenge and where this occurs, disputes must be resolved under the specified dispute resolution procedure.

Discount

A discount of 10 per cent. has been applied to the O&M Price that HS1 pays in years 3 to 5 of the current Control Period, ending in 2015, less a fixed risk fee of £550,000 nominal per annum. During the course of the year, HS1 is obliged to pay 60 per cent of the discount to the TOCs in proportion to the OMRC paid by each such TOC under its Track Access Agreement. Out of the HS1 portion of the discount, a £600,000 one off sum has been ring fenced to fund investment projects on High Speed 1 to be agreed with TOCs.

Outperformance Share

During each of the last three years of Control Periods 2 and 3 (2015 to 2020 and 2020 to 2025 respectively), NR(HS) must rebate HS1 a share of the O&M Price (the “**Outperformance Share**”). The Outperformance Share represents the difference between the O&M Price HS1 has been charged over a given year and the costs that NR(HS) has incurred over the course of that year, including its mark up (which for these purposes must be no less than 10%).

NR(HS) notifies HS1 of the proposed Outperformance Share at the end of each year. HS1 may agree that amount or dispute it by escalating the matter within HS1 and NR(HS), before ultimately referring the matter to the industry standard dispute resolution process. NR(HS) must then pay HS1 50% of the agreed or determined Outperformance Share, HS1 being obliged to pass on 30% of the Outperformance Share to the TOCs in proportion to the OMRC paid by each such TOC under its Track Access Agreement.

Price for Renewals and Replacements

If a Renewal and Replacement is listed (or to be listed) in a Five Year Asset Management Statement or Asset Management Annual Statement, then NR(HS) must submit a proposal in relation to the carrying out of that Renewal and Replacement, including its price for doing so. If HS1 and NR(HS) are able to agree on a price for a Renewal or Replacement, HS1 is required to include NR(HS)'s position in the Five Year Asset Management Statement or Asset Management Annual Statement that it submits to the ORR for approval. If the ORR accepts the terms and price submitted in relation to a Renewal or Replacement, NR(HS) will be required to carry such Renewal or Replacement out on those terms and for that price.

If HS1 and NR(HS) cannot agree on the terms for NR(HS) carrying out any such Renewal and Replacement, then they must first try to agree alternative terms and failing that, either party may refer the dispute to the contractual dispute resolution mechanism. If such a dispute has not been resolved when HS1 is to submit its Five Year Asset Management Statement or Asset Management Annual Statement, then HS1 must include NR(HS)'s position in the relevant statement when it submits that statement to the ORR for approval. If the ORR approves that part of the relevant statement, then NR(HS) must implement the relevant Renewal and Replacement as provided for in the relevant statement. If the ORR requires changes to the relevant statement, then HS1 and NR(HS) must try to agree a solution (e.g. an adjustment to planned maintenance) and failing such agreement, HS1 is entitled to ask a third party to carry out the relevant Renewal and Replacement, or to choose not to carry it out. Where HS1 elects not to carry out a particular Renewal and Replacement (and additional maintenance is not provided for or is not possible) NR(HS) is afforded certain relief in respect of the relevant asset.

Performance payments and indemnity

NR(HS) pays HS1 sums for periods where the use of High Speed 1 is restricted or services are delayed (except where caused by HS1 itself, the UKPN Parties or as a result of a “**Track Access Force Majeure Event**”, which comprise natural phenomena such as extreme weather or environmental conditions) and, in either case, HS1 is obliged as a consequence to pay a TOC sums under that TOC’s Track Access Agreement. HS1 pays NR(HS) sums for periods where the performance of High Speed 1 is above a specified benchmark and HS1 receives payment from a TOC under that TOC’s Track Access Agreement as a consequence. See “*Framework Agreements and other Track Access Agreements – Common terms of framework track access agreements – Performance Payments*” below.

As a general principle, NR(HS) is not liable to HS1 for latent defects (that is, those defects or deficiencies in most aspects of the design, the construction or commissioning of High Speed 1). NR(HS) is however responsible for repairing any such defect, as well as liable to HS1 for the consequent payments HS1 must make to TOCs for the poor performance or unavailability of High Speed 1, where the aggregate cost of those repairs and those payments is less than £600,000 per annum. HS1 is liable where the aggregate costs of those repairs and those payments is equal to or exceeds £600,000 per annum.

In other cases where High Speed 1 is unavailable or performs poorly and as a result NR(HS) is required to make performance payments to HS1 of £1 million or more in any quarter and/or the rolling annual aggregate of such payments is £2.5 million or more, then HS1 can call for NR(HS) to produce a plan to improve performance (a “**Performance Recovery Plan**”) with the reasonable expectation of reducing HS1’s liability to TOCs for performance payments under Track Access Agreements to or below £3 million per annum. NR(HS) must implement any settled Performance Recovery Plan, provided implementation does not cut across its safety obligations or put it in breach of the Operator Agreement. NR(HS) is responsible for the costs of implementing any Performance Recovery Plan up to £500,000 (indexed). HS1 is responsible for the costs in excess of this amount, subject to certain exceptions.

The requirement for NR(HS) to reimburse HS1 for performance payments is subject to the general cap on NR(HS)’s liability under the Operator Agreement of £10 million per annum (indexed) and, in the case of performance payments, a sub-cap to the lower of £3 million per annum (indexed) and HS1’s aggregate liability to the TOCs in respect of such payments.

In addition, NR(HS) is required to reimburse HS1 for payments that HS1 makes to TOCs under the indemnity contained in the HS1 Passenger Access Terms for, amongst other things, breach of contract to the extent HS1’s liability to make the relevant payment is caused by NR(HS)’s breach of the Operator Agreement.

Early termination

HS1 rights to terminate

As set out in the Secretary of State Operator Agreement Direct Agreement, HS1 may terminate the Operator Agreement on not less than three years’ notice which may be given at any time after 1 April 2020 (or the end of the second Control Period if later) with such termination being effective at the earliest on 31 March 2025 (or the last day of the third Control Period if later). Immediately before such termination, HS1 is obliged to pay the Operator a specified break payment.

HS1 also has a right pursuant to the Secretary of State Operator Agreement Direct Agreement to partially terminate the Operator Agreement in relation to the provision by the Operator of the Operator Services (or certain thereof) following the carrying out of a market testing exercise. See “*Direct Agreements – Secretary of State Operator Agreement Direct Agreement Specific Terms*” below.

HS1 may also terminate the Operator Agreement (subject in certain cases to the expiry of a remedy period) following the occurrence of any “**Operator Event of Default**”. These comprise:

- (a) a material breach by NR(HS) of its Operator Agreement obligations;

- (b) the Operator failing to pay HS1 any amount due that is in excess of £100,000 (indexed) within three calendar months of notice requiring payment;
- (c) insolvency-type events relating to the Operator;
- (d) termination of the guarantee granted by NRIL in relation to NR(HS)'s performance of its obligations under the Operator Agreement; and
- (e) NRIL is relieved from liability under the guarantee as a result of any of the specified circumstances described in the guarantee.

Where the Operator Event of Default is the subject of a Provisional Order or Final Order and NR(HS) fails to take any action required in order to enable HS1 to comply with that Provisional Order or Final Order (as appropriate) with the result that the Secretary of State is entitled to terminate the Concession Agreement for HS1's default of its terms, then HS1 shall be entitled to serve a notice of termination, terminating the Operator Agreement immediately and no period of remedy will be available to NR(HS).

Operator rights to terminate

In the ordinary course, NR(HS) has the right to terminate the Operator Agreement where it rejects the O&M Price proposed by HS1 – see “*Payments – Fixed price*” above. However, special provision is made in the Operator Agreement up to the end of Control Periods 2 and 3, where instead of the O&M Price being proposed to NR(HS) by HS1, NR(HS) has the primary role in determining the O&M Price – see “*Operator's obligations – Obligations*” above. In these circumstances, following representations, HS1 is obliged to submit the O&M Price that NR(HS) has proposed to the ORR as part of the Periodic Reviews at the start of Control Periods 2 and 3 and consequently, NR(HS) does not have the right to reject the O&M Price submitted to the ORR.

Unless otherwise agreed in respect of Control Period 4 and beyond, HS1 has the right to propose the O&M Price and NR(HS) the right to reject that proposal. In these circumstances, if NR(HS) rejects HS1's proposal, NR(HS) may terminate the Operator Agreement after the later of 31 March 2025 and the end of the third Control Period. NR(HS) does this by serving a notice on HS1 (a “**Periodic Review Termination Notice**”).

Any Periodic Review Termination Notice must be served no later than 20 business days before the end of the Control Period in which the O&M Price was proposed. If a Periodic Review Termination Notice is served, then the Operator Agreement will end on the date of that Control Period unless HS1 serves a counter notice before the end of that Control Period requiring the Operator Agreement to continue for a further 18 months on the basis of the previous O&M Price for the first 12 months and then on the basis of HS1 meeting the NR(HS)'s actual costs, plus a specified mark up for the remaining six months. After this 18 month period, it will be for HS1 to either operate High Speed 1 itself or procure that a third party does so.

NR(HS) may also terminate the Operator Agreement (subject in certain cases to the expiry of a remedy period) following the occurrence of any “**HS1 Event of Default**”. These comprise:

- (a) termination of the Concession Agreement other than in circumstances where an Operator Event of Default constitutes or gives rise to HS1's default under the Concession Agreement or where the Concession Agreement expires;
- (b) a material breach by HS1 of its Operator Agreement obligations;
- (c) HS1 failing to pay NR(HS) any amount due that is in excess of £100,000 (indexed) within three calendar months of notice requiring payment; and
- (d) insolvency-type events relating to HS1.

Where NR(HS) terminates the Operator Agreement upon the occurrence of an HS1 Event of Default, NR(HS) shall be entitled to receive payment from HS1 for NR(HS)'s documented costs of termination reasonably incurred (including costs in respect of materials, equipment, services and works procured or committed to by NR(HS) prior to the termination date and the unpaid portion of any sums due to NR(HS) under the Operator Agreement that had accrued prior to the termination date, less any sums due to HS1 from NR(HS)).

The Financiers' Operator Agreement Direct Agreement also regulates NR(HS)'s ability to terminate the Operator Agreement for HS1 default. See "*Direct Agreements – Financiers' Operator Agreement Direct Agreement Specific Terms*" below.

HS1's ability to perform operation and maintenance services on termination

Whilst HS1 is not equipped in the immediate term to fulfil the role performed by NR(HS) should the Operator Agreement be terminated, given the managed exit/timing under the Operator Agreement, there is an opportunity for HS1 to either obtain the requisite expertise directly through recruitment (most likely through transfers from NR(HS) under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246)) or identify a third party to become the replacement operator, in each case before actual termination can occur. Pursuant to the market testing regime within the Secretary of State Operator Agreement Direct Agreement, HS1 has the option after the end of the second Control Period (2020) to seek to provide the services currently delegated to NR(HS) itself, which if exercised would, over time, allow HS1 to build up its own internal expertise. See "*Direct Agreements – Secretary of State Operator Agreement Direct Agreement Specific Terms – Market testing*" below.

NRIL Guarantee

The NRIL Guarantee sets out the terms of a guarantee granted by Network Rail Infrastructure Limited ("**NRIL**") in favour of HS1 in respect of the payment and performance obligations of NR(HS) under the Operator Agreement.

Notable terms provide for the total amount recoverable under the NRIL Guarantee to be capped at £5,000,000 (indexed) in respect of any incident and at £10,000,000 (indexed) in respect of any calendar year. In addition, it shall be a "**Termination Event**" (permitting NRIL to terminate the NRIL Guarantee on prior written notice to HS1) if NRIL pays an aggregate amount under the NRIL Guarantee of at least £15,000,000 (indexed) during any Control Period. This means that, subject to notice requirements and an obligation to continue to perform up to that termination threshold, upon reaching that threshold, NRIL will not be required to incur any further liability. This is so, even where NRIL is in the process of meeting HS1's latest demand under the NRIL Guarantee.

Amounts properly and reasonably incurred (and evidenced) by NRIL in performing any such obligations of NR(HS) under the Operator Agreement in accordance with the actions of a skilled and experienced operator are included for the purpose of the aggregate amounts described above.

HS1 acknowledges that NR(HS) may sub-contract to NRIL the performance of obligations under the Operator Agreement that are the subject of the NRIL Guarantee and agrees to accept proper performance of such obligations by NRIL as discharge of the obligations of NRIL under the NRIL Guarantee.

Network Interface Agreement

The Network Interface Agreement defines the operational interfaces between the Classic Network and High Speed 1, identifies relevant interface assets and their ownership and establishes maintenance and renewal responsibility and allocates related costs in respect of those assets, in each case between NRIL and HS1.

Under the terms of the Network Interface Agreement, payments pass between NRIL and HS1 where one of them incurs costs in maintaining or renewing any interface asset despite the fact that the responsibility for the maintenance or renewal of that asset falls to the other. NRIL and HS1 periodically seek to agree the net maintenance charges that will apply between them in each Control Period and year within each such Control Period and there are provisions for reconciling payments to actual work undertaken.

The Network Interface Agreement also provides that HS1 must establish an escrow account (the “**Operator Escrow Account**”). The Network Interface Agreement was amended in 2011 to provide that the Operator Escrow Account need not be funded for so long as OTTP and OMERS (individually or jointly) have “control” of HS1 (that is, the power to ensure that the affairs of HS1 are conducted in accordance with its wishes) but must be funded where any of the following occur:

- (a) OTTP and OMERS (individually or jointly) cease to have “control” of HS1;
- (b) there is a notified “material adverse change” (a material adverse deterioration (over a period specified by NRIL) in the business, assets, financial condition or prospects of HS1 that occurs prior to obtaining a long-term, unsecured, unsubordinated debt rating with S&P, Moody’s or Fitch);
- (c) should HS1 obtain such a rating, it is downgraded below that original rating;
- (d) where HS1 fails to make a payment under the amended Network Interface Agreement, the Operator Agreement or any other agreement NRIL (or its affiliates) is a party to where such payment is due and payable under the terms of any such agreement;
- (e) the Operator Agreement is terminated or expires; or
- (f) any enforcement action against HS1 in respect of an amount outstanding under any loan agreement which HS1 is party to.

Where HS1 is obliged to fund the Operator Escrow Account, it must contain an amount that is no less than the greater of £2 million (indexed by reference to RPI) and the aggregate of agreed net maintenance charges which HS1 or its successor is obliged to pay in a given contract year of the Network Interface Agreement. NRIL can issue notice to the escrow agent calling for funds to be paid to it from the Operator Escrow Account where HS1 or its successor (as the case may be) has failed to pay sums owing to NRIL when due and payable. Excess monies at the end of each year the Operator Escrow Account is extant are repaid to HS1.

Framework Agreements and other Track Access Agreements

Existing framework agreements and other track access agreements

An FTAA is a framework agreement for the purposes of the Access Regulations, pursuant to which HS1 grants access to TOCs to provide passenger services over High Speed 1. HS1 has entered into two FTAAAs to date, each of which have been effectively (if not actually) endorsed by the ORR in accordance with the Access Regulations:

- (a) the FTAA with LSER dated 14 August 2009, as amended by supplemental agreements dated 17 August 2011 and 6 December 2011 and further amended on 9 November 2012, in relation to the operation of domestic passenger services over High Speed 1; and

- (b) the FTAA with EIL dated 14 August 2009, as amended by a first supplemental agreement effective from 17 February 2011, a second supplemental agreement dated 8 February 2012 and a third supplemental agreement dated 3 December 2012, in relation to the operation of international passenger services over High Speed 1.

Prior to the date of these FTAAAs, NR(HS) acted as the allocation body for access to High Speed 1.

HS1 has also entered into a Track Access Agreement with DB Schenker dated 23 December 2012 in relation to the operation of night freight services over High Speed 1. As this agreement is for six months only, it does not qualify as an FTAA for the purposes of the Access Regulations. See “*DB Schenker Track Access Agreement*” below.

Common terms of framework track access agreements

Incorporation of terms and codes

FTAAAs are short-form agreements under which the infrastructure manager – HS1 – grants the TOC access to the relevant infrastructure – High Speed 1 – in return for the payment of access charges. The HS1 Passenger Access Terms (a common set of terms that govern, amongst other things, the rules for the allocation of access by HS1, the performance regime that operates between HS1 and each TOC) payments and termination (the “**HS1 Passenger Access Terms**”), the HS1 Network Code (see “*The HS1 Network Code*” below) and other codes are incorporated by reference into the terms of each FTAA.

Access Charges

Access charges for each Railway Period are calculated on the basis of a formula comprising a number of components. The main charges are described below.

IRC

The IRC is calculated by multiplying the train per minute figure of £69.57 specified in the Concession Agreement by the agreed chargeable journey time (irrespective of actual performance or stopping patterns) for the respective service groups of the TOC’s services, a discount factor and an indexation factor (semi-annual RPI indexation). The resulting figure will be multiplied by the number of timetabled trains to be operated by that TOC on High Speed 1 in each of its respective service groups to arrive at the IRC to be paid by that TOC.

OMRC

The OMRC is calculated by multiplying the aggregate of the three components of the operational, maintenance and renewal costs: costs that are directly incurred as a result of operating train services on High Speed 1 (“**DI Costs**”), long term operational phase project costs that are recoverable (“**LTOP Costs**”) and pass through costs (“**Pass Through Costs**”), each expressed as train per minute figures) by the agreed journey time (irrespective of actual performance or stopping patterns) for the respective service groups of the TOC’s services and an indexation factor (annual RPI plus 1.1 per cent.). The resulting figure will be multiplied by the number of timetabled trains to be operated by that TOC on High Speed 1 in each of its respective service groups to arrive at the OMRC to be paid by that TOC.

The Pass Through Costs, such as insurance, rates and non-traction electricity charges are recovered from the TOC in the calculation described above on the basis of estimated charges. There is then an annual reconciliation to actual charges.

Traction Electricity Charge

A charge is levied for the amount of traction electricity consumed by the TOC in operating rolling stock (the “**Traction Electricity Charge**”). The Traction Electricity Charge is calculated by multiplying a modelled electricity consumption rate for the relevant rolling stock, by the rate of traction

current published by HS1 (including an uplift of 8 – 12 per cent to take account of transmission losses and specific charges levied by the UK national grid provider) and the usage measured in vehicle kilometres. There is a reconciliation annually to adjust for the actual cost of traction electricity. The intention is that HS1 should recover the full cost of traction electricity but nothing more than that.

Capacity Reservation Charge

The “**Capacity Reservation Charge**” is a flat charge for the capacity that a TOC has reserved but not timetabled in the timetabling process set out in the HS1 Network Code (other than capacity which that TOC has bid for, but not been allocated by HS1). It does not vary by time or day of the week. The reservation charge per passenger train is 25 per cent. of the full IRC per train path (ignoring discounts).

Where a TOC has reserved capacity which is used by another TOC, then the first TOC is entitled to a rebate on its Capacity Reservation Charge of 75 per cent of the lower of:

- (a) the Capacity Reservation Charge; and
- (b) where the second TOC is a passenger TOC, the amount of the IRC paid by that second TOC; and
- (c) where the second TOC is a freight TOC, 75 per cent. of the freight OMRC paid by that second TOC.

Other charges

The following may also be payable under the terms of any FTAA:

- (a) a congestion tariff: the Access Regulations allow for a tariff to be charged where High Speed 1 is congested;
- (b) freight supplement which is payable by franchised domestic TOCs (so is payable by LSER and not EIL) in relation to those freight related costs that are not recoverable by HS1 under the freight charging arrangements under the Access Regulations;
- (c) a carbon cost charge, which is a fair and equitable proportion (as determined by the ORR) of all costs, expenses and any other financial liabilities relating to the carbon reduction commitment incurred by HS1; and
- (d) other service charges: these are payable for bespoke services performed by HS1.

Discounts

Under the existing FTAA's, the IRC is currently levied at the maximum level permitted by the Secretary of State's charging framework set out in the Concession Agreement. Under the Access Regulations, HS1 is permitted to give time-limited discounts on the charges it levies on TOCs where the discounts relate to administrative cost savings or where, in the case of discount schemes available to all TOCs with reference to specified flows, they encourage the development of new rail services or encourage the use of considerably underutilised lines.

HS1 has agreed with EIL that it will apply discounts to the IRC for services on the routes to and from Marne la Vallee and Brussels. The discount for Marne la Vallee is 75% of IRC for the three consecutive timetable years commencing December 2010 and the discount for Brussels is 60% of IRC for the two consecutive timetable years commencing December 2012 and then 40% of IRC for the two subsequent timetable years. The amendments to the EIL FTAA required to give effect to the Marne la Vallee discount were approved by the ORR in February 2011. The amendments to the EIL FTAA required to give effect to the Brussels discount were approved by the ORR in December 2012.

HS1 published a discount policy in February 2012. The ORR has confirmed that it considered the proposed process set out in the discount policy to be consistent with the Access Regulations.

Payments

The HS1 Passenger Access Terms set out the basis on which each TOC that enters into an FTAA or other track access agreement pays access charges to HS1. Certain elements of the overall access charge are paid in advance. This is in contrast to the position in relation to track access contracts in respect of the Classic Network.

Each of the IRC, OMRC and Capacity Reservation Charge are payable in advance of the commencement of each Advance Period. All other charges are payable in arrears following the end of each Railway Period. The charges that are payable in advance are nevertheless calculated on the basis of each Railway Period (with the aggregate of all relevant Railway Periods within an Advance Period being payable before that Advance Period).

Each TOC must pay or procure payment of, all sums invoiced within 15 working days of the relevant invoice date, free and clear of any deduction, withholding or set off except only as may be required by law or as expressly provided for in the relevant FTAA or track access agreement or the HS1 Network Code.

Changes in volume impacting access charges

Generally speaking, applications for capacity must be submitted to HS1 a year in advance of the timetable period (usually a year from December to December) (a “**Timetable Period**”) in which that capacity is to be utilised. TOCs have the right to cancel reserved capacity once reserved. Where they do so, this will result in the loss by that cancelling TOC of the Capacity Reservation Charge it is liable for, or a proportion thereof where HS1 can find another TOC to use the cancelled capacity.

There are also provisions that affect the level of access charges payable where there is a material change in the level of services operated by TOCs. Specifically, this occurs where there is an increase or decrease of not less than 4% in the number of timetabled trains on High Speed 1 in any timetable year (a “**TAA Review Event**”). The question of whether a TAA Review Event has occurred is assessed on the date in a year when the timetable changes and a new timetable begins (a “**Passenger Change Date**”). Passenger Change Dates occur in December each year and on any such date, HS1 will assess whether there has been an increase or decrease of not less than 4% in either the number of anticipated timetabled trains by all TOCs or the same by an individual TOC in relation to the services it operates, in each case, in the 12 months from that December, compared to the relevant trains actually operated in the 12 months following the last Periodic Review, Interim Review or TAA Review Event.

Where a TAA Review Event does occur, then two elements of the OMRC that each TOC pays – avoidable DI Costs and LTOP Costs – are reapportioned to remain reflective of the level of services that each operates and the costs that HS1 will incur after the TAA Review Event.

Any such reapportionment of both DI Costs and LTOP Costs ordinarily anticipates that they will be split between domestic and international TOCs on the basis of expected train minutes spent on High Speed 1, both in total and on shared parts of the route. The relevant wording in the HS1 Passenger Access Terms is not clear, but it is understood that on any reapportionment, this means each TOC pays DI Costs and LTOP Costs on the basis of the minutes it expects to spend on High Speed 1.

Because TOCs are required to reserve capacity in advance for a Timetable Period, and to pay most of the access charges quarterly in advance for the timetabled capacity, HS1’s revenues would not be immediately impacted by the unavailability of or impossibility to access High Speed 1 and/or related infrastructure. Notice periods for cancelling capacity on a long term basis are also relatively long, potentially giving HS1 the opportunity to book the use of the cancelled capacity by other TOCs.

In addition, HS1’s exposure to reductions in train numbers below the TAA Review Event threshold (see “*Risk Factors – Regulatory Risks – Insufficient operations, maintenance and renewals income to*”

cover costs – Recovering operations, maintenance and renewals charge” is potentially further mitigated in relation to reductions in levels of domestic passenger services below the level of Baseline Domestic Services – see *“The Domestic Underpinning Agreement – Domestic Underpinning”* above.

See also *“Operator Agreement – Payments – Fixed price”* in relation to a similar, but not entirely consistent, arrangement that allows HS1 to seek a review of the O&M Price that it pays the Operator under the Operator Agreement upon a material reduction in the volume of traffic.

Restriction of Use payments

Restrictions of Use

HS1 is liable to TOCs for certain defined restrictions of use to High Speed 1 (each an **“HS1 Restriction of Use”**). A **“Restriction of Use”** means on any day, any restriction of use of all or any part of the main or diversionary routes of High Speed 1 which results in a difference between the planned timetable and the actual timetable of that day. An **“HS1 Restriction of Use”** is any Restriction of Use that is not:

- (a) an **“Operator Restriction of Use”**, in broad terms, being a Restriction of Use:
 - (i) due to damage to High Speed 1 or environmental damage arising wholly or mainly from the operations of the TOC;
 - (ii) that the TOC requests (other than for stated purposes) or requires (for changes to High Speed 1); or
 - (iii) that is part of a pre-specified allowance to restrict use); or
- (b) a **“Competent Authority Restriction of Use”**, in broad terms, being a Restriction of Use required by a change in law or the direction of a **“Competent Authority”**, (a Competent Authority being a body (other than the ORR) that has authority to make decisions that impact HS1’s and the TOC’s respective abilities to provide access to the track and to operate train services).

HS1 is liable to each TOC for certain costs (**“Direct Costs”**) incurred by the relevant TOC due to the occurrence of an HS1 Restriction of Use (although if the HS1 Restriction of Use is not reflected in the planned timetable, the amount of compensation payable is calculated in accordance with the FTAA Performance Regime instead. See *“Performance Payments”* below). Direct Costs comprise the aggregate demonstrable amount of (i) bus and taxi costs (ii) publicity costs (iii) train planning and diagramming costs (iv) other costs directly related to the organisation and management of the TOC’s response to the relevant HS1 Restriction of Use, in each case reasonably incurred by the TOC as a result of the HS1 Restriction of Use, adjusted by adding any increased mileage costs and by deducting any reduced mileage costs. The amount is subject to a duty on the part of the TOC to mitigate and it excludes loss of profit, revenue and consequential loss.

HS1 is liable to each TOC at a specified rate for any Competent Authority Restriction of Use, which can involve a proportional payment where the overall level of compensation paid to it for that Competent Authority Restriction of Use is insufficient to cover HS1’s and all TOC’s costs (including profit, revenue and consequential loss).

Compensation payable by HS1 for any HS1 Restrictions of Use in any given year is capped at one per cent. of the aggregate IRC/OMRC for that year.

The unavailability of, or inability to access, HS1 as a result of circumstances affecting an interface to HS1 (such as the closure of the Channel Tunnel, an incident on the French or Belgian railways or an incident on the Classic Network south of the Kent connections to HS1), would not generally lead to the imposition of a restriction of use, and therefore HS1 would not be required to make rebate payments in those circumstances.

Under the HS1 Passenger Access Terms, a rebate in respect of the IRC which HS1 is obliged to pay as part of the wash-up of track access charges is only paid where HS1 is actually directly responsible for a Restriction of Use which has been imposed or for a Competent Authority Restriction of Use (but it would no longer be paid where a third party TOC is responsible for the imposition of a Restriction of Use).

Signalling improvements at Stratford International make it possible for trains to be turned round where an incident requires the closure of St Pancras International. This improves HS1's ability to manage any disruption to High Speed 1.

Payments

All payments for Restrictions of Use are payable in arrears periodically following the receipt by the TOC of a "**Possessions Statement**" which describes the Restrictions of Use that took place in the preceding Railway Period.

Performance Payments

Payments

The HS1 Passenger Access Terms sets out the basis on which performance sums are due and payable by each TOC to HS1 and by HS1 to each TOC (when those terms are incorporated into an FTAA, each an "**FTAA Performance Regime**"). Performance sums are payable in arrears.

HS1's liability to pay performance sums to a TOC may be set off against any performance sums that such TOC owes to HS1 and the balance shall be payable by the relevant party within 35 days of the Railway Period to which the payment relates. No performance sums due and payable by HS1 to any TOC may be set off by that TOC against the track access charges due and payable to HS1. If any party wishes to dispute the amount of any performance sum, it shall only be obliged to pay or set off the undisputed amount of the performance sum.

The performance of High Speed 1

The HS1 Passenger Access Terms contain a performance regime that provides for financial payments to be made each Railway Period by HS1 or by the relevant TOC depending on the performance of High Speed 1 relative to pre-determined thresholds. In broad terms, if the performance of High Speed 1 is below a 'poor' threshold, HS1 will pay the TOC for that poor performance and where High Speed 1 is above a 'good' threshold, the TOC will pay HS1 for that good performance. Where High Speed 1 is performing between these two thresholds, no payment will be made by either party. See "*Risk Factors – Regulatory Risks – Performance regime liability caps*" for the ORR's opinion of the caps that relate to the performance regime liability under the HS1 Passenger Access Terms.

Payments for poor performance are determined by calculating the average minutes delay per train caused by the performance of High Speed 1 and deducting the poor performance threshold from this. If the answer is positive, HS1 will pay the relevant TOC an amount that is calculated by multiplying that number by a payment rate and the number of trains scheduled to be operated in the relevant period.

Payments for good performance are determined in a similar way, calculating the average minutes delay per train caused by the performance of High Speed 1 and deducting this average from the good performance threshold. If the answer is positive, the relevant TOC will pay HS1 an amount that is calculated by multiplying that number by a payment rate and the number by a payment rate and the number of trains scheduled to be operated in the relevant period.

Both payments for poor performance and good performance are capped:

- (a) poor performance payments are capped at the lower of:

- (i) an overall cap for the relevant year, being 3% of the aggregate IRC/OMRC for the current financial year ending 31 March 2013 and for each subsequent year thereafter; and
 - (ii) in the first three Railway Periods of a year, the cap is 25% of the aggregate IRC/OMRC for that year, in the next three Railway Periods, 50%, in the next three Railway Periods, 75% and in the remaining Railway Periods, 100%; and
- (b) good performance payments are capped at the lower of:
- (i) an overall cap for the relevant year, being 0.3% of the aggregate IRC/OMRC for the current financial year ending 31 March 2013 and for each subsequent year; and
 - (ii) in the first three Railway Periods of a year, the cap is 0.075% of the aggregate IRC/OMRC for that year, in the next three Railway Periods, 0.15%, in the next three Railway Periods, 0.225% and in the remaining Railway Periods, 0.3%.

The performance of TOCs

Separately, the TOC is liable to HS1 each Railway Period for its poor performance and the poor performance of its trains that in each case impact on the performance of other TOCs using High Speed 1. The payment is determined by calculating the minutes delay per train that each affected TOC suffers that are caused by the relevant TOC or its fleet and multiplying this by a payment rate.

However, all minutes delay attributed to an affected TOC in a Railway Period are ignored (so the potential payment from the relevant TOC is reduced) where that affected TOC's performance is better than the "**TOC on TOC Receipt Benchmark**" – a benchmark average delay per train expressed in minutes for a given TOC. The affected TOC's performance is calculated by dividing the aggregate minutes delay to that TOC's services that are attributable to HS1 and other TOCs and dividing that by the scheduled number of trains to be operated by that affected TOC.

The regime is designed to ensure that HS1 is not out of pocket for the poor performance of a TOC – payments HS1 is required to make to a TOC under its FTAA for the poor performance of another TOC are consistent with the payments that HS1 will receive from the poor performing TOC under that poor-performing TOC's FTAA and only made to the extent received from that poor performing TOC.

Payments from a TOC to HS1 are capped at the lower of:

- (a) an overall cap for the relevant year, being 3% of the aggregate IRC/OMRC for the current financial year ending 31 March 2013 and for each subsequent year thereafter; and
- (b) in the next three Railway Periods, 50%, less the aggregate of any performance payment made by the TOC earlier in the year, in the next three Railway Periods, 75%, less the aggregate of any performance payment made by the TOC earlier in the year.

Rights of termination and default risk

Rights of termination

The following are the TOC events of default which will entitle HS1 to terminate that TOC's FTAA:

- (a) the TOC ceases to be authorised to be an operator of trains by an appropriate licence;
- (b) a TOC insolvency event;
- (c) breach of any safety obligations;

- (d) any amount due from the TOC to HS1 remains unpaid for more than 28 working days, except where liability to pay such sum is contested in good faith and with timely recourse to appropriate means of redress; and
- (e) breach of that FTAA or other collateral contracts by the TOC resulting in material financial loss to HS1 or in material disruption to operations of other TOCs (see *LSER FTAA* below which specifies a further default event in relation to LSER).

The following are the HS1 events of default which will entitle the TOC to terminate that TOC's FTAA (subject in the case of the LSER FTAA or EIL FTAA, to the terms of the relevant Direct Agreement):

- (a) the termination of the Concession Agreement;
- (b) an HS1 insolvency event;
- (c) breach of any safety obligations;
- (d) any amount due from HS1 to the TOC remains unpaid for more than 28 working days, except where liability to pay such sum is contested in good faith and with timely recourse to appropriate means of redress; and
- (e) breach of that FTAA or other collateral contracts by HS1 resulting in material financial loss to that TOC.

Default risk

It is HS1's business to provide access to TOCs to High Speed 1 in order that those TOCs can deliver passenger and freight services. This creates an unavoidable dependency. There are however a number of safeguards against exposure to TOC credit risk.

Whilst HS1 has no say over the choice of domestic operator (compared with international operators), that choice being exercised by the Secretary of State, at the time of applying for a domestic franchise, part of the "fit and proper" test for operating a franchise involves an assessment of financial capabilities by the Secretary of State.

In the event of a TOC payment default, HS1 can serve a suspension notice on the TOC 28 working days after the date of the payment default. TOC access to High Speed 1 can then be suspended following a further 7-day notice period. Ultimately, the FTAA or other track access agreement can be terminated by HS1 three months after the suspension notice is served.

The financial downsides of TOC non-payment are mitigated by TOC payments under FTAA's and other track access agreements being made quarterly in advance.

In addition, in the case of existing domestic train services, the Domestic Underpinning Agreement would be applicable in the circumstances described in "*The Domestic Underpinning Agreement – Domestic Underpinning*" above. This provides that HS1's track access revenues from domestic passenger rail services on High Speed 1 may be protected by the Secretary of State. Indeed, in the absence of both a domestic (whether due to insolvency or otherwise) and international TOC, the Underpinning Payments would, once triggered, include the amount of OMRC payable by a notional domestic TOC and would therefore extend to cover the entirety of the Aggregate OMRC agreed or determined by the ORR.

Some reliance can also be placed on the Railways Act of the Secretary of State to provide, or secure the provision of, passenger rail services when a passenger rail franchise comes to an end and no further franchise agreement has been entered into (the Secretary of State's so-called, "Operator of Last Resort" duty). It is true that that duty is subject to exceptions including where, in the opinion of the Secretary of State, adequate alternative railway passenger services are available. And so there can be no regulatory assurance that a further franchise will be granted after the expiry of the current franchise

agreement or that LSER or any other TOC will seek to operate high speed domestic rail services on High Speed 1 after the expiry of the current franchise. However, it is considered highly unlikely that the Secretary of State would no longer franchise services after the end of the current IKF Franchise on the basis that there were adequate alternative domestic railway passenger services available to the domestic services currently operated on High Speed 1.

The HS1 Network Code

The “**HS1 Network Code**” is a common set of contractual provisions contained in every track access agreement (including FTAAAs) between HS1 and an access beneficiary. The HS1 Network Code concerns areas where common processes are necessary or desirable, such as delay attribution, timetable change, vehicle and network change, operational disruption, changes to access rights and performance.

The HS1 Network Code does not create direct contractual relationships between TOCs; any such relationships (obligations, remedies and liabilities) flow through HS1, although certain third parties have directly enforceable rights by virtue of the Contracts (Rights of Third Parties) Act 1999:

- (a) the ORR has the right to directly enforce its rights under any track access agreement;
- (b) the Secretary of State has the right to directly enforce its rights under provisions of the HS1 Passenger Access Terms that relate to novation of track access agreements on termination and default events and suspension of such an agreement before its termination; and
- (c) other TOCs have the right to directly enforce payments due to them under other FTAA Performance Regimes.

LSER FTAA

Term

The LSER FTAA commenced on 13 December 2009 and, unless terminated earlier, expires on the earlier of:

- (a) 31 December 2014; and
- (b) the date six months after the expiry date of the LSER FTAA (the expiry date being April 2014).

Special terms

The LSER FTAA modifies the HS1 Passenger Access Terms, replacing paragraph 1.2 of Section 5 (*Liability*) with the following:

“Subject to paragraph 2 and the other provisions of the Contract, HS1 Ltd shall indemnify the Train Operator against all Relevant Losses resulting from:

- (a) *a failure by HS1 Ltd to comply with its Safety Obligations;*
- (b) *any Environmental Damage to HS1 Ltd arising:*
 - (i) *directly from any acts or omissions of HS1 Ltd;*
 - (ii) *from any Environmental Condition known to have existed prior to 24 June 2009;*
- (c) *any damage to the Specified Equipment or other vehicles or things brought onto HS1 Ltd in accordance with the permission to use granted by the Contract arising directly*

from HS1 Ltd's wilful default, negligence or failure to comply with its obligations under the Contract; and

(d) *a breach by HS1 Ltd of the Contract."*

This special term adds HS1 liability for Environmental Damage caused by any Environmental Condition known to have existed prior to 24 June 2009. "**Environmental Condition**" means (i) any Environmental Damage or (ii) any event, circumstance, condition, operation or activity which it is reasonably foreseeable is likely to result in Environmental Damage, which (in either case) in HS1's reasonable opinion could result in HS1 incurring any material liability or being subject to the direction of any Competent Authority. "**Environmental Damage**" means any material injury or damage to persons, living organisms or property (including offence to man's senses) or any pollution or impairment of the environment resulting from the discharge, emission, escape or migration of any substance, energy, noise or vibration.

It is a default event under the LSER FTAA, entitling HS1 to terminate, where LSER's franchise agreement with the Secretary of State to operate passenger services on High Speed 1 and other routes is terminated.

EIL FTAA

The EIL FTAA commenced on 17 August 2009 and, unless terminated earlier, expires on 16 August 2019.

DB Schenker Track Access Agreement

The DB Schenker track access agreement commenced on 23 December 2012 and, unless terminated earlier, expires on 23 June 2013.

Station Access Agreements and other station arrangements

Granting of access and conditions

HS1 is the "**Station Facility Owner**" at the HS1 Stations by virtue of the leases of the HS1 Stations granted to HS1 by the Secretary of State (see "*Property Leases – HS1 Land*" below). As such, HS1 is responsible for granting access to those HS1 Stations to TOCs under the terms of certain Station Access Agreements. Station Access Agreements are not subject to pre-approval by the ORR.

Existing Station Access Agreements

HS1 has entered into a number of Station Access Agreements to date:

- (a) Station Access Agreements with LSER dated 14 August 2009 in relation to access to each of the HS1 Stations (see "*Business of HS1 – History & Business – Overview*" for the definition of HS1 Stations which does not include Ashford International);
- (b) Station Access Agreements with EIL dated 14 August 2009 in relation to St Pancras International and Ebbsfleet International;
- (c) a Station Access Agreement by way of diversionary access with First Capital Connect Limited dated 11 January 2008 in relation to St Pancras International; and
- (d) a Station Access Agreement with East Midlands Trains Limited dated on a date in 2007 in relation to St Pancras International.

HS1 Station Access Conditions

A common set of conditions (the “**HS1 Station Access Conditions**”) are incorporated by reference into the terms of Station Access Agreements.

The HS1 Station Access Conditions set out the terms on which the TOCs have access to the HS1 Stations, prescribing a number of aspects of the relationship between HS1 as Station Facility Owner and access beneficiaries, including provisions dealing with:

- (a) the extent of the Station Facility Owner’s maintenance obligations and the access beneficiary’s responsibilities in relation station common and exclusive areas;
- (b) the management of change to the station fabric;
- (c) insurance;
- (d) keeping a register of station assets;
- (e) a performance regime upon which certain performance bonuses and rebates are payable against a benchmarked level of station service/amenity; and
- (f) environmental protection.

The HS1 Station Access Conditions have recently been amended to introduce, among other things:

- (a) modifications to the existing mechanisms for implementing changes to the station access arrangements in order to facilitate the entry of new TOCs at one or more HS1 Stations, including pursuant to the SPI Commitment given by HS1 to the European Commission;
- (b) an operational performance regime which is intended to assess and incentivise the provision by HS1 of certain station services and station amenities to the TOCs; and
- (c) a financial cap on the liability of HS1 to the TOCs arising under the applicable Station Access Agreement.

Access charges

The access charges charged by HS1 under the Station Access Agreements with LSER, EIL, EMT and FCC (the latter by way of diversionary access) are subject to certain contractual constraints (including under the HS1 Leases), but charges are not regulated by the ORR in the same manner as the ORR regulates the OMRC. There is however, a right of appeal to the ORR in relation to the level of charges levied.

Access charges are split into “common” and “exclusive” charges. The common element contains components, LTC and Qx based on vehicle departures.

Station Concession Agreements

Under certain station concession agreements, HS1 has appointed NR(HS) to be the operator of the HS1 Stations until 31 December 2086 (the “**Station Concession Agreements**”).

Station management arrangements at Ashford International

HS1 has appointed EIL as operator of Ashford International under a station management agreement (the “**Ashford International Station Management Agreement**”) with responsibility for maintenance, repair, renewal of the station in accordance with any Station Access Agreement that HS1 enters into to permit TOC services to call at Ashford International, the HS1 Station Access Conditions and the Concession Agreement, management of the station and its staff, and for safety and border control

services. The most significant income stream in relation to the Ashford International arrangements – the station access charges – are payable by TOCs calling at the station direct to HS1 and are not channelled through EIL.

Commitments / obligations in relation to St Pancras International Station

HS1 has provided a 10-year commitment (from the date of the European Commission’s decision to approve the EIL joint venture, which was 17 June 2010) (the “**SPI Commitment**”) to the European Commission which obliges HS1 to provide international passenger TOCs with access to specified services at St Pancras International on a non-discriminatory basis. Services to be provided in or adjacent to the international zone include facilities and services for ticket purchase and retrieval, and access to check-in, security, customs and border control infrastructure. If there is no or insufficient space or capacity, HS1’s obligation to provide services in or adjacent to the international zone of St Pancras International extends to making space or capacity available, if necessary by amending existing occupancies in the station to the extent reasonably required.

The SPI Commitment provides for the appointment of a monitoring trustee whose role extends to the giving of a binding expert opinion in the event that a TOC claims that HS1 has failed to comply with its requirements under the SPI Commitment. Chris Bolt, the former chairman of the ORR, has been appointed as the monitoring trustee. The European Commission may participate in the binding expert opinion procedure. If HS1 does not accept the expert opinion, it may submit the matter to an appeal authority. The European Commission will be the appeal authority until such time as the ORR confirms in writing that it is willing and entitled and has set up the appropriate procedures to assume the role of appeal authority.

Direct Agreements

General

HS1 has or will have entered a series of direct agreements with various parties to the High Speed 1 project to regulate the way in which certain rights may be exercised and obligations performed in relation to termination of the underlying suite of Project Documents (the “**Direct Agreements**”). All of the Direct Agreements work in broadly similar ways, but they do vary as amongst themselves both in relation to the underlying project documents they are concerned with and the precise mechanics of regulating termination as well as in other non-material respects. The differences in mechanics are not mentioned in this Prospectus as the overriding principle is that each Direct Agreement is intended to work in concert with other relevant Direct Agreements to ensure that termination or avoidance of termination of a Project Document is coordinated with, as appropriate, termination or avoidance of termination of other Project Documents.

Termination is regulated under the Direct Agreements by first imposing advance notice obligations on the HS1 counterparty to the relevant underlying project document and then a right of step in to prevent termination, or novation where a third party has been indentified to carry on HS1’s role.

The following is a list of the Direct Agreements, the parties to them and their purpose:

- (a) “**Funders’ Direct Agreement**” – HS1, the Secretary of State and the HS1 Security Trustee – the purpose of the Funders’ Direct Agreement is to regulate the Secretary of State’s rights under the Concession Agreement to terminate that agreement for HS1’s default and thereby also bring about the termination of certain real estate agreements which include underleases at Ashford International and Ebbsfleet International and to create step in rights for the HS1 Security Trustee to try to cure any such default. The Funders’ Direct Agreement also creates certainty as to the amount of the debt portion of the termination sum that may be payable if the Concession Agreement is terminated;
- (b) “**Financiers’ Operator Agreement Direct Agreement**” – HS1, the Secretary of State, the HS1 Security Trustee, NR(HS) and NRIL – the purpose of the Financiers’ Operator Agreement Direct Agreement is to regulate NR(HS)’s rights under the Operator Agreement

and NRIL's rights under an agreement (the "**NR Operation and Maintenance Agreement**") with HS1 and the Secretary of State dated 25 May 2010 (together, the "**Operations Agreements**"), in each case to terminate the relevant Operations Agreement for HS1's default. The Financiers' Operator Agreement Direct Agreement creates step in rights for the HS1 Security Trustee to try to cure any such default;

- (c) "**Secretary of State Operator Agreement Direct Agreement**" – HS1, the Secretary of State, NR(HS) and NRIL – the purpose of the Secretary of State Operator Agreement Direct Agreement is to regulate NR(HS)'s rights under the Operator Agreement to terminate it for HS1's default. The Secretary of State Operator Agreement Direct Agreement creates step in rights for the Secretary of State in relation to the Operator Agreement upon termination or expiry of the Concession Agreement. The Secretary of State Operator Agreement Direct Agreement also introduces a market testing regime that allows HS1 to market test certain of the services provided by NR(HS) under the Operator Agreement;
- (d) "**LSER Track and Station Access Direct Agreement**" – HS1, the Secretary of State, the HS1 Security Trustee and LSER – the purpose of the LSER Track and Station Access Direct Agreement is to regulate LSER's rights under the LSER FTAA and the Station Access Agreements with LSER (the "**LSER Access Agreements**") to terminate any of those LSER Access Agreements for HS1 default. The LSER Track and Station Access Direct Agreement creates a right in favour of the HS1 Security Trustee to novate the LSER Access Agreements upon novation by the HS1 Security Trustee of the Concession Agreement;
- (e) "**EIL Track and Station Access Direct Agreement**" – HS1, the Secretary of State, the HS1 Security Trustee and EIL – the purpose of the EIL Track and Station Access Direct Agreement is to regulate EIL's rights under the EIL FTAA and the Station Access Agreements with EIL (the "**EIL Access Agreements**") to terminate any of those EIL Access Agreements for HS1 default. The EIL Track and Station Access Direct Agreement creates a right in favour of the HS1 Security Trustee to novate the EIL Access Agreements upon novation by the HS1 Security Trustee of the Concession Agreement; and
- (f) "**UKPN Parties Direct Agreement**" – HS1, the Secretary of State, the HS1 Security Trustee, the UKPN Parties and CTRL – the purpose of the UKPN Parties Direct Agreement is to regulate the UKPN Parties' rights under the UKPN Agreements to terminate any of those agreements for HS1 default and other termination events. The UKPN Parties Direct Agreement creates step in rights for the HS1 Security Trustee in relation to the UKPN Agreements upon cure of such a default or termination event.

Some of the key terms of each of these direct agreements are set out in this section.

Common Direct Agreement Terms

Step in and step out arrangements

Under each of the Funders' Direct Agreement, the Financiers' Operator Agreement Direct Agreement and the UKPN Parties Direct Agreement, the counterparty to the relevant underlying Project Document (that is, the Secretary of State, NR(HS), NRIL and the UKPN Parties) is prevented from terminating that underlying Project Document where HS1 is in default of it without first giving the HS1 Security Trustee not less than 90 days' prior notice. During this time and during a subsisting HS1 default, the HS1 Security Trustee has the right to procure that a representative (the "**Representative**") assumes, jointly and severally with HS1, all of HS1's rights under the underlying Project Document (a "**Step-in Period**"). During any Step-in Period, the Representative will have the same rights to remedy any HS1 default as would ordinarily be available to HS1 and the relevant counterparty must deal with the Representative and not with HS1.

Generally speaking, the relevant counterparty cannot terminate the underlying Project Document during any Step-in Period, but, depending on the Direct Agreement, it may do so where (i) the Representative or HS1 fails to use reasonable endeavours to remedy the default that gave rise to the

step in where that default is capable of remedy and it is continuing, (ii) the relevant counterparty is not duly paid (including for liabilities he might have incurred during any Step-in Period) or (iii) a subsequent default arises.

The Step-in Period ends on the Representative or the HS1 Security Trustee (as appropriate) stepping out. Step out is effected by notice, or broadly speaking, termination/expiry of the Concession Agreement. Upon stepping out, the Representative or HS1 Security Trustee (as appropriate) is released from its undertaking to assume the rights and obligations of HS1 under the underlying Project Document.

The Secretary of State Operator Agreement Direct Agreement also contains a right in favour of the Secretary of State to step into the Operator Agreement, but this right is subordinate to the rights of step in/novation set out in the Financiers' Operator Agreement Direct Agreement. Where the rights under the Financiers' Operator Agreement Direct Agreement no longer apply, NR(HS) is prevented from terminating the Operator Agreement where HS1 is in default of it without giving the Secretary of State not less than 15 business days' prior notice. The Secretary of State's right to step into the Operator Agreement lasts up to the expiry of the Concession Agreement – 31 December 2040.

The Secretary of State can step out at any time on 30 days' prior notice and must step out after a year, unless discussions are ongoing or contracts have been exchanged, in each case with a substitute operator. The Operator Agreement ends at the end of any step in by the Secretary of State, unless it has been novated.

Novation/transfer of HS1's rights and obligations under the Project Documents

Under each of the Direct Agreements (other than the Secretary of State Operator Agreement Direct Agreement), where HS1 has defaulted on an underlying Project Document, the HS1 Security Trustee or the Representative can notify of the requirement to transfer HS1's rights and obligations under that Project Document, or effect a change in ownership, in each case to a person who would satisfy the requirements for ownership of HS1 set out in the Concession Agreement (which include requirements for sufficient financial resources and expertise) (a "**Suitable Substitute Contractor**"). Novations are also permitted under the Financiers' Operator Agreement Direct Agreement, the LSER Track and Station Access Direct Agreement and the EIL Track and Station Access Direct Agreement where the HS1 Security Trustee effects a novation of the rights and obligations of HS1 under the Concession Agreement by virtue of its rights under the Funders' Direct Agreement. Novations of any of the LSER Access Agreements and the EIL Access Agreements require the consent of the ORR.

The Secretary of State Operator Agreement Direct Agreement also contains a right in favour of the Secretary of State to transfer HS1's rights and obligations under the Operator Agreement to himself or his nominee in place of stepping in – see "*Step in and step out arrangements*" above. As is the case with the Secretary of State's rights to step in, his right to transfer is subordinate to the rights of step in/novation set out in the Financiers' Operator Agreement Direct Agreement.

Administrative receivership of HS1

The Direct Agreements each provide that the counterparty to the relevant underlying Project Document cannot terminate that Project Document due solely to the appointment by the HS1 Security Trustee of an administrative receiver in respect of HS1. In the case of the Funders' Direct Agreement and such an appointment, the Secretary of State can also not take any action to wind up, appoint or consent to the appointment of an administrator or sanction a voluntary arrangement (or similar) in relation to HS1.

Funders' Direct Agreement Specific Terms

The Funders' Direct Agreement also contains a specific acknowledgement from the Secretary of State that states that, for the purposes of the Concession Agreement, any hedging provider under any hedging arrangement HS1 enters into will be treated as a "**Senior Lender**" and such hedging arrangement will be treated as though it constituted "**Third Party Borrowing**" (each for the purposes of, and as defined in, the Concession Agreement) See "*The Concession Agreement – Enforcement and termination –*

Compensation payable on termination” above. Any hedging arrangement must be entered into in accordance with a hedging policy approved by the Secretary of State. Such policy is set out in a letter dated 18 November 2010 between the parties to the Funders’ Direct Agreement as amended on 26 October 2012 (the “**Hedging Policy Letter**”). The Hedging Policy Letter sets out HS1’s agreement only to enter into hedging arrangements which are for normal prudent treasury management and non-speculative purposes and are intended to protect HS1 against exposure to interest applicable to financial indebtedness, inflation, foreign exchange and commodity prices. The Hedging Policy Letter goes on to detail those agreements that constitute a hedging arrangement for the purposes of the Concession Agreement, namely those agreements that hedge HS1’s exposure to debt interest, inflation risk and currency risk.

Financiers’ Operator Agreement Direct Agreement Specific Terms

The Financiers’ Operator Agreement Direct Agreement also contains a number of specific provisions.

Controlled revenues

The HS1 Security Trustee must notify NR(HS) and NRIL following any enforcement action by the secured creditors of any debt HS1 has secured in relation to the HS1 Concession (including any exercise by the HS1 Security Trustee under any High Speed 1 direct agreement). Where this occurs, (unless the HS1 Security Trustee has assumed with HS1, HS1’s rights and obligations under the Operator Agreement), at the election of NR(HS) and NRIL, HS1 must open and maintain an account (the “**Revenues Account**”) into which must be paid, all future track access charges received by HS1 or the HS1 Security Trustee. The balance of the Revenues Account shall be applied according to a waterfall specified in the Financiers’ Operator Agreement Direct Agreement (which ranks NR(HS) and NRIL first in respect of the monies owed to those parties).

Security

HS1 has previously entered into the NRIL Guarantee (see “*NRIL Guarantee*” above) and the NR(HS) Security Agreement (see “*Other agreements and requirements – NR(HS) Security Agreement*” below). The Financiers’ Operator Agreement Direct Agreement provides that, in respect of:

- (a) the NR(HS) Secured Assets – the subject of the NR(HS) Security Agreement – the NR(HS) Security Agreement ranks in priority to the Financiers’ Security Documents and other subsequent security; and
- (b) the Operations Agreements, HS1 has granted a first ranking security in favour of the HS1 Security Trustee pursuant to the Financiers’ Security Documents.

Network Rail and NR(HS) each consents to this security.

Precedence of the Financiers’ Operator Agreement Direct Agreement

The Financiers’ Operator Agreement Direct Agreement is to take precedence over the Secretary of State Operator Agreement Direct Agreement (see “*Secretary of State Operator Agreement Direct Agreement Specific Terms*” below).

Secretary of State Operator Agreement Direct Agreement Specific Terms

The Secretary of State Operator Agreement Direct Agreement also contains a number of specific provisions.

Restriction on Secretary of State’s right to terminate the Concession Agreement

The Secretary of State Operator Agreement Direct Agreement provides an assurance that where HS1 is in breach of the Concession Agreement as a consequence of a breach or non-performance by NR(HS) of its obligations under the Operator Agreement, the Secretary of State cannot exercise his rights of

termination or other remedies under the Concession Agreement for so long as HS1 takes steps to procure the remedy of the default by NR(HS) (or, where the default is not capable of remedy, to terminate the Operator Agreement and appoint a substitute operator).

Market testing

The Secretary of State Operator Agreement Direct Agreement provides for a market testing regime in favour of HS1, whereby HS1 may after 1 April 2020 (or if later, the end of the second Control Period, serve notice on NR(HS) that it wishes to undertake a market testing of either the whole or part of the “**OA OMR**” (meaning the operation, maintenance renewal and replacement of High Speed 1 and other services performed by NR(HS) under the Operator Agreement), in each case with a view to awarding one or more replacement operator agreements (each a “**Replacement Operator Agreement**”) in place of all or the relevant part (as applicable) of the Operator Agreement. HS1 may only serve such a market testing notice once during the term of the Operator Agreement and if and when it does, it must do so no less than three years before the end of the Control Period in which it is served. Any market testing exercise may only commence from 1 April 2020 (or, if later, the commencement of the next Control Period) with a new operator capable of being replaced after such an exercise from 31 March 2025.

HS1 is not be obliged to enter into any Replacement Operator Agreement and is permitted to carry out some or all of the OA OMR itself, or engage an affiliate to do so. Where following a market testing exercise, HS1 does enter into a Replacement Operator Agreement or carries out some or all of the OA OMR itself it must pay NR(HS) a break payment (up to £10 million plus VAT).

Where following a market testing exercise, HS1 elects not to terminate any provision by the Operator of the Operator Services, HS1 may instead give notice to NR(HS) at least one calendar year before the end of the then current Control Period that it wishes NR(HS) to continue to carry out the whole or that part of the OA OMR that was the subject of a market testing exercise, whereupon the Operator Agreement shall continue.

Where entering into a Replacement Operator Agreement would result in OA OMR being split between NR(HS) and another service provider, the Operator Agreement is amended to reflect the revised risk profile and to HS1 paying the reasonable costs of NR(HS) incurred in relation to such OA OMR, plus the mark-up of 10% of such costs during the first Control Period and an objective market percentage thereafter.

HS1 right to voluntarily terminate

HS1 has a right under the Operator Agreement to terminate the Operator Agreement voluntarily, subject to the terms of the Secretary of State Operator Agreement Direct Agreement. These terms provide that HS1 must give at least three years’ notice to NR(HS) (copied to the Secretary of State), the date of such termination must not be before 31 March 2025 and HS1 must make a break payment to NR(HS).

The Power Supply Agreements

General

HS1 is party to a variety of agreements with the UKPN Parties relating to the supply of electrical power to High Speed 1. These agreements (the “**UKPN Agreements**”) consist of an umbrella agreement relating to the variation and novation of agreements for the construction and operation of the electricity distribution systems for High Speed 1 (the “**Umbrella Agreement**”), distribution agreements relating to Sections 1 and 2 of High Speed 1 (each a “**Distribution Agreement**” and separately, the “**Section 1 Distribution Agreement**” and the “**Section 2 Distribution Agreement**”) and master agreements relating to Sections 1 and 2 of High Speed 1 (each a “**Master Agreement**” and separately, the “**Section 1 Master Agreement**” and the “**Section 2 Master Agreement**”).

HS1 is also party (as landlord) with the UKPN Parties to a variety of standalone electricity and internal substation leases.

UKPN Agreements

Predating the Concession Agreement

Although the UKPN Agreements were entered into before the Concession Agreement, HS1 believes that the terms of the UKPN Agreements are consistent with delivering HS1's obligations under the Concession Agreement.

Performance regime

The UKPN Agreements contain a performance regime under which the UKPN Parties are liable to HS1 for power outages affecting assets that are directly required for the commercial operation of trains on High Speed 1. Liability is capped and where the cap is exceeded, HS1 may terminate the UKPN Agreements. Liability in respect of other types of outage and voltage degradations is not capped, although all types of outage and voltage degradation are subject to certain exclusions of liability.

Grant of Leases

The Umbrella Agreement obliges the Secretary of State to consent to the grant by HS1 of certain sub-leases in favour of the UKPN Parties to enable the relevant UKPN Party to perform its construction, commissioning and distribution obligations under the Section 1 Distribution Agreement. The equivalent obligation on HS1 to grant these sub-leases is set out in the Section 1 Master Agreement. Title to the assets and premises over which HS1 grants the sub-leases is conferred on HS1 under the main lease of the HS1 Leases.

Termination

The UKPN Agreements contain no express rights of voluntary termination on the part of HS1 and no automatic termination on expiry of the Concession Agreement.

Under the Concession Agreement, the Secretary of State may on its termination or expiry require HS1 to terminate the UKPN Agreements or novate them to such party as the Secretary of State may direct. At such time, HS1 is obliged to pay the UKPN Parties a termination sum and transfer the HS1 Assets (which includes the assets under the UKPN Agreements) to the Secretary of State or his nominee (and no consideration shall be payable by the Secretary of State in such situation). This position may be contrasted with where, first, any UKPN Parties Agreement is terminated for breach by HS1 (whereupon a termination sum is payable by HS1, but, on payment, the HS1 Assets vest in HS1) and, secondly, where the Concession Agreement is terminated for Secretary of State default.

Where the Concession Agreement has been terminated for Secretary of State default, the compensation payment due to HS1 under the Concession Agreement (being either the Default Compensation Termination Amount or the Non-Default Compensation Termination Amount) shall cover the termination sum due by HS1 to the relevant UKPN Party.

HS1 believes that the rights of the UKPN Parties to recover the termination sum referred to above are limited in two important ways – one legal and one commercial. The first is by the operation of the UKPN Parties Direct Agreement which prevents their termination rights for a period of time. The second is that HS1 believes that the UKPN Parties would need to consider closely the proportionality of that remedy because if the UKPN Parties acted in such a way so as to lead to a termination of the Concession Agreement, they may not be able to recover their termination sum and may also lose the assets which would otherwise vest in them (see above).

Termination of the UKPN Agreements is subject to the terms of the UKPN Parties Direct Agreement – see “*Direct Agreements – General*” above.

Assignment

The UKPN Agreements may be assigned by way of security in favour of any financier of HS1 subject, in the case of the Section 1 Distribution Agreement and Section 1 Master Agreement, to the waiver or approval of the relevant UKPN Party.

Letter of credit

The sale of 100% of EDF Energy plc's ownership in its regulated and non-regulated network activities (which includes its activities in relation to HS1) was made to a consortium consisting of Cheung Kong Infrastructure Holdings Ltd, Hongkong Electrical Holdings Ltd and the Li Ka-Shing Foundation on 1 November 2010. The conditions for consent to such a sale included a requirement for a letter of credit where the purchaser did not satisfy the relevant criteria for a specified sum – £7.5 million (indexed since October 2010) (the “**Secured Sum**”). A letter of credit issued by Lloyds TSB Bank plc, Mizuho Corporate Bank Ltd and Royal Bank of Canada has been put in place in favour of HS1 for the Secured Sum. The amounts payable under the letter of credit will be available to HS1 in the event that in HS1's reasonable opinion, either UKPN Party breaches its respective obligations under the UKPN Agreements and the funds are applied by HS1 to remedy the breach.

Power supply-related leases

There are a number of power supply-related sub-leases. These consist of an agreement for lease, a CTRL lease, a cables lease, an internal substation lease, a pits and ducts lease, a premises lease and a stand-alone substation lease.

During the term of these sub-leases (which extends for the duration of the HS1 Lease (see “*Property Leases*” below)), HS1 has the right to such licences from the relevant UKPN Parties as are necessary for the commercial operations of HS1 (subject to limited provisos, including in some instances the consent of the relevant UKPN Parties, not to be unreasonably withheld).

Property Leases

HS1 Land

HS1's interest in the land and rights required for the operation and maintenance of High Speed 1 (the “**HS1 Land**”) is comprised in four leases (the “**HS1 Leases**”), granted by the Secretary of State to HS1. This includes all land and rights required in connection with:

- (a) the stations at St Pancras International, Ebbsfleet International, Stratford International and Ashford International;
- (b) all track and operational equipment;
- (c) all “line side” equipment (save for the electricity distribution system supplied by the UKPN Parties, which is provided subject to separate arrangements);
- (d) bridges and tunnels; and
- (e) access roads and maintenance strips for maintenance vehicles.

Term

The term of each of the HS1 Leases that relate to the High Speed 1 track, St Pancras International, Ebbsfleet International and Stratford International expire on 31 December 2040. The term of the lease that relates to Ashford International expires on 30 December 2028 (subject to an option in favour of the Secretary of State to require HS1 to take a reversionary lease until 30 December 2040). See “*The HS1 Stations – Ashford International Station Lease*” below.

The HS1 Leases each contain a right in favour of the Secretary of State to terminate the lease following the termination of the Concession Agreement. As this termination right is not mutual it is possible (although unlikely) that HS1 will remain liable as tenant under the HS1 Leases after the Concession Agreement has ended if the Secretary of State does not exercise his break right, although this is considered unlikely. In addition, the Secretary of State may terminate the Ashford International Platform Lease in 2028 if the term of the Ashford International Station Lease is not extended to 31 December 2040.

None of the HS1 Leases can be renewed pursuant to the security of tenure provisions in the Landlord and Tenant Act 1954 and HS1 does not have the right to apply to the courts for relief against forfeiture.

Repair

The repair and handback obligations set out in the HS1 Leases which apply to the stations at St Pancras International, Ebbsfleet International and Stratford International are intended to mirror the renewal and replacement regime under the Concession Agreement (which applies to the High Speed 1 track). Under these obligations, HS1 is to keep the demised premises in good and substantial repair and condition based on a 50 year asset management strategy, with 5-yearly reporting (noting that the Concession Agreement requires a 40 year view to be taken).

The TOCs are expected to fund the cost of major repair and renewal work, with additional contributions to come from the service charge paid by the retail tenants at each of the stations. Funds received by HS1 from the TOCs to fund the cost of major repair and renewal (the “**Long Term Charge**”) will, once established, be paid by HS1 into an escrow account held in the joint names of HS1 and the Secretary of State (the “**Long Term Charge Escrow Account**”). Funds to be contained in the Long Term Charge Escrow Account are then to be applied by HS1 for the purpose of carrying out renewals and replacements at the HS1 Stations.

Management arrangements are in place for the investment of funds in the Long Term Charge Escrow Account when not required to carry out renewals and replacements similar to those that apply in relation to the Renewals Escrow Account.

The repair and handback obligations set out in the main lease of the HS1 Leases do not apply to the Temple Mills Depot, which is let to EIL, pursuant to which EIL assumes HS1’s obligations to keep those premises in good and substantial repair and condition.

The HS1 Stations

General

At each of the HS1 Stations, there are a number of material leasehold interests which HS1 has taken its interest subject to. These leases fall into two main categories: (i) “**Priority Leases**” (leases (generally speaking) of non HS1 facilities granted by the Secretary of State prior to the HS1 Leases which expire after the date of the HS1 Leases); and “**Inferior Leases**” (leases of premises within a station granted by HS1 out of the HS1 Leases which will expire before the date of the HS1 Leases) and “**Superior Leases**”.

The effect of this leasing structure is that HS1, in its capacity as immediate landlord:

- (a) can enforce all the covenants on the part of the tenants under the Priority Leases and the Inferior Leases;
- (b) has the ability to exercise the rights reserved out of the Priority Leases and Inferior Leases for the benefit of High Speed 1; and
- (c) has direct control over the exercise of any rights over the HS1 Land granted in favour of third parties by the Priority Leases or the Inferior Leases.

Priority Leases

Examples of Priority Leases include:

- (a) Thameslink St Pancras International Station (a station on the Classic Network);
- (b) a London Underground interchange and ticket hall known as the Western Ticket Hall at St Pancras International;
- (c) a hotel and apartment complex at St Pancras International known as Manhattan Lofts (the “**Lofts**”); and
- (d) railway crossings, bridges, sidings and UKPN Parties substation leases at Stratford International, including the Orient Way Sidings; and
- (e) the plaza deck (for use as a bridge over the HS1 track) and the culvert (to carry services to the adjoining owner’s land) at Ebbsfleet International. There are also four substation leases to UKPN Parties located in or close to the station complex.

Inferior Leases

Examples of Inferior Leases include:

- (a) leases of retail units (including to International Currency Exchange, Marks & Spencer, Boots, WH Smith and Searcys);
- (b) leases to domestic TOCs (in most cases granted pursuant to Station Access Agreements);
- (c) leases to EIL in connection with international train services;
- (e) a lease to the Olympic Delivery Authority of the multi storey car park and temporary bridge link and a lease with Thames Water in relation to a raw water pumping station, in each case, at Stratford International;
- (d) leases to the UK and French government agencies and security forces.

Ashford International Station Lease

Due to the complex superior lease holding structure at Ashford International, HS1 does not have the benefit of a continuous term demised by the HS1 Lease of Ashford International (the “**Ashford International Station Lease**”) until 31 December 2040. The term of the Ashford International Station Lease is 35 years less four days and is due to expire on 27 December 2028. The Secretary of State’s superior lease, out of which the Ashford International Station Lease was granted, expires one day later on 28 December 2028. The Secretary of State has an option in 2028 to require HS1 to take a reversionary lease, which will effectively extend the term of the Ashford International Station Lease to 31 December 2040. This put option is conditional upon the Secretary of State being granted an option in 2028 to extend his own lease, which is in turn conditional upon its landlord, EIL, exercising an option to extend the term of EIL’s lease.

Ashford International Platform Lease

Both the Secretary of State and HS1 have a right to break the HS1 Lease of the Ashford International island platforms, (the “**Ashford International Platform Lease**”) if the Ashford International Station Lease is not extended beyond 2028. In addition, the Ashford International Platform Lease will terminate automatically if the superior lease from NRIL to the Secretary of State terminates by virtue of a certification by a government department that the demised premises are required for carrying out of repairs, or if they are ceased to be used as a station platform.

Other agreements and requirements

NR(HS) Security Agreement

HS1 has entered into a security agreement with NR(HS) (the “**NR(HS) Security Agreement**”) whereby an element of OMRC payable by LSER to HS1 under the LSER Track Access Agreement (the first £53,000,000 of such receivable) (the “**NR(HS) Secured Assets**”) are assigned in favour of NR(HS) as security for HS1’s obligations under the Operator Agreement.

HS1 Network Statement

HS1 is obliged to issue a network statement to inform potential and current access beneficiaries of the requirements for securing access to and the operational rules of High Speed 1. Amongst other things, it explains the performance regime and charging framework that will operate in any FTAA or other track access agreement entered into with HS1. The current network statement was issued in March 2012 and is valid until further notice (the “**HS1 Network Statement**”). The HS1 Network Statement purports to have no contractual force and is intended to be an informative document only.

GLOSSARY

“**Accession Memorandum**” means each memorandum to be entered into pursuant to the STID and/or the CTA;

“**Acceptable Bank**” means:

- (a) a bank or financial institution which has a rating for its long term unsecured and non credit enhanced debt obligations of A+ or higher by S&P or Fitch or A1 or higher by Moody’s or a comparable rating from an internationally recognised credit rating agency;
- (b) an Original Initial ACF Lender under the Initial Authorised Credit Facilities Agreement; or
- (c) any other bank or financial institution approved by the HS1 Security Trustee;

“**Access Regulations**” means Railways Infrastructure (Access and Management) Regulations 2005, as amended by the Railways Infrastructure (Access and Management) (Amendment) Regulations 2009;

“**Account**” means any bank account of any Obligor or the Issuer;

“**Accounting Reference Date**” means each 31 March, except as adjusted in accordance with the CTA;

“**Accounting Standards**” means accounting standards which, as at the Initial Issue Date are:

- (a) in the case of any Financial Statement or information relating to HS1, generally accepted in the United Kingdom as approved from time to time and approved by the Accounting Standards Board and making such adjustments (if any) as the HS1 Auditors may consider appropriate arising out of changes to applicable accounting standards or otherwise from time to time; and
- (b) in the case of any Financial Statement or information relating to any other Obligor, generally accepted in the jurisdiction of incorporation of that Obligor as approved from time to time, including IFRS, and approved by the relevant regulatory or other accounting bodies in that jurisdiction and making such adjustments (if any) as the HS1 Auditors may consider appropriate arising out of changes to applicable accounting standards or otherwise from time to time;

“**Accounting Standards Board**” means the body of the Financial Reporting Council responsible for setting accounting standards in the U.K.;

“**Acquisition**” means the transactions entered into in respect of the acquisition of HS1 and its related assets and liabilities including, without limitation, the documentation entered into to effect the financing and refinancing of such acquisition;

“**Additional Financial Indebtedness**” means (after the Initial Issue Date) Financial Indebtedness incurred by any Obligor in accordance with the terms of the CTA and the STID and including:

- (a) Incremental Debt;
- (b) Financial Indebtedness incurred in respect of Capital Expenditure;
- (c) Financial Indebtedness incurred to fund the working capital requirements of the Obligors; and
- (d) Financial Indebtedness incurred in respect of the refinancing of any existing Financial Indebtedness;

“**Additional HS1 Secured Creditors**” means any person not already an HS1 Secured Creditor which becomes an HS1 Secured Creditor pursuant to the provisions of the STID;

Additional Obligor means any person wishing or required to become an Obligor who accedes to the CTA and the STID;

“Affected HS1 Secured Creditor” means each HS1 Secured Creditor (and where the Issuer is the relevant Affected HS1 Secured Creditor, each Issuer Secured Creditor (the **“Affected Issuer Secured Creditor”**)) who is affected by an Entrenched Right;

“Affiliate” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where Affiliate has the meaning given to it in that Hedging Agreement). Notwithstanding the foregoing, in relation to The Royal Bank of Scotland plc, the term “Affiliate” shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Services Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Services Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiaries or subsidiary undertakings;

“Agency Agreement” means the agreement dated on or about the Establishment Date as amended and/or supplemented and/or restated from time to time, pursuant to which the Issuer has appointed the Principal Paying Agent, the other Paying Agents, the Registrar, Agent Bank and Transfer Agents in relation to all or any Tranche of Bonds, and any other agreement for the time being in force appointing further or other Paying Agents or Transfer agents or other Principal Paying Agent, Agent Bank or Registrar in relation to all or any Tranches of Bonds, or in connection with their duties, unless permitted under the Agency Agreement, where necessary with the prior written approval of the Bond Trustee, together with any agreement for the time being in force amending or modifying any of the aforesaid agreements;

“Aggregate Available Liquidity” means the sum of the aggregate commitments under the Liquidity Facility Agreement and the balance (if any) on the Obligor Debt Service Reserve Accounts and the Issuer Debt Service Reserve Account at such Test Date;

“Annual Financial Statements” means consolidated Annual Financial Statements of the Security Group together, prepared as if they constituted a statutory group for consolidation purposes, and related accountants’ reports, within 150 days after the end of each Financial Year;

“Appointee” means any attorney, manager, agent, delegate, nominee, custodian, receiver or other person appointed by the Issuer Security Trustee under the Issuer Deed of Charge or by the Bond Trustee under the Bond Trust Deed;

“Approved Expert List” means the list of experts agreed between the HS1 Security Trustee and HS1 from time to time;

“Ashford Control Centre” means the centre located in the Ashford area that controls the signalling and traction power supply of High Speed 1;

“Asset Management Annual Statement” means the annual asset management statement produced by HS1 in accordance with Schedule 10 (Asset Stewardship and Periodic Review) of the Concession Agreement which details the operations, maintenance, renewal and replacement, any specified upgrades and other upgrades HS1 has carried out in the relevant year and intends, or is required to carry out, in the following year;

“Authorisation” means an authorisation, consent, approval, permit, resolution, licence, exemption, filing, notarisation or registration;

“Available Commitment” means, in relation to a Liquidity Facility Provider at any time and save as otherwise provided in the Liquidity Facility Agreement, the amount of its Commitment less the aggregate principal amount which it has advanced by way of Liquidity Drawings or Standby Drawings

and which at such time has not been repaid under the Liquidity Facility (excluding any amounts due to be repaid and which are available to be redrawn on the Liquidity Interest Payment Date);

“Available Discounted Cashflow” means, in respect of the relevant Determination Date, the aggregate of the Projected Consolidated Cashflow during the Test Period, discounted back to such Determination Date at the Discount Rate applicable to that Test Period;

“Available Enforcement Proceeds” means on any date, all monies received or recovered by the HS1 Security Trustee (or any Receiver appointed by it) in respect of the HS1 Security and under the guarantees from the Obligors (but excluding any amounts standing to the credit of or recovered by the Security Trustee from any HS1 Defeasance Account, any Escrow Account, any HS1 Specific Account, any Obligor Liquidity Standby Account, any HS1 Hedge Collateral Account and any Tax Credits and, for the avoidance of doubt, any swap collateral or premium in respect of a Hedging Transaction);

“Available Standby Amount” means, at any time, an amount equal to the aggregate of all outstanding Standby Drawings less the aggregate amount of all outstanding Liquidity Standby Account Drawings at such time (excluding any amounts due to be repaid on such date and which are available to be redrawn on the Liquidity Interest Payment Date);

“Base Currency” means pounds sterling;

“Best Practice” means, in respect of HS1, the exercise of that degree of skill, diligence, prudence, foresight and practice which would reasonably be expected from a skilled and experienced infrastructure manager engaged in the provision of high speed railway infrastructure;

“Bond Enforcement Notice” means a notice delivered by the Bond Trustee to the Issuer in accordance with the Conditions which declares the Bonds to be immediately due and payable;

“Capital Expenditure” means any expenditure which is treated as capital expenditure in accordance with the Accounting Standards;

“Cash” means cash in hand or credit balances or amounts on deposit, in each case denominated in Sterling, U.S. Dollar, euro, Canadian dollars (being the lawful currency for the time being of Canada) Japanese yen (being the lawful currency for the time being of Japan) or Swiss francs (being the lawful currency for the time being of Switzerland), with any Acceptable Bank which is:

- (a) accessible by an Obligor within 30 days; and
- (b) not subject to any Security Interest (other than one existing under the HS1 Security Documents);

“Cash Available to HS1” means in respect of any Determination Date under a Liquidity Facility Agreement, the sum of the funds available for drawing from the Obligor Operating Accounts on such Determination Date;

“Cash Available to the Issuer” means in respect of any Determination Date under a Liquidity Facility Agreement, the sum of: (i) the funds available for drawing from the Issuer Transaction Accounts on such Determination Date; and (ii) the amount to be paid to the Issuer on the immediately succeeding LF Interest Payment Date in respect of which amounts are due to be paid to the Issuer;

“Cash Equivalent Investment” means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of:
 - (i) the United States of America; or

- (ii) the United Kingdom, any member state of the European Economic Area or any Participating Member State which has a credit rating of either A-1 or higher by S&P or F-1 or higher by Fitch or P-1 or higher by Moody's, or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by S&P or F-1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);
- (e) any investment in money market funds which (i) have a credit rating of either AAAm or higher by S&P or AAAMmf or higher by Fitch or Aaa-mf or higher by Moody's (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above and (iii) can be turned into cash on not more than 30 days' notice;
- (f) time deposits with any Acceptable Bank maturing within one year after the relevant date of calculation; and
- (g) any other debt security approved by the Majority Senior Term Lenders in the case of any Cash Equivalent Investments purchased by or on behalf of HS1, or the Bond Trustee in the case of any Cash Equivalent Investments purchased by or on behalf of the Issuer,

in each case, denominated in sterling, dollars or euro and to which the Issuer or any Obligor, as applicable is alone (or in the case of an Obligor together with other Obligors) beneficially entitled at that time and which is not issued or guaranteed by any member of the Security Group or subject to any Security Interest (other than a Security Interest arising under the HS1 Security Documents or the Issuer Deed of Charge, as the case may be);

“Cash Manager” means HS1 or any substitute cash manager;

“Change of Control” means:

- (a) prior to an IPO, the Sponsors, and/or any funds (including limited partnerships, corporations or trusts) controlled, the economic interests of which are owned, or managed, by the Sponsors, between them, cease to legally and beneficially own and control (directly or indirectly) at least 50 per cent. of the issued voting share capital of Holdco;
- (b) following an IPO, one or more of the Sponsors, and/or any funds (including limited partnerships, corporations or trusts) controlled, the economic interests of which are owned, or managed, by the Sponsors, between them, cease to legally and beneficially own and control (directly or indirectly) and have the right to vote as they see fit at least 30per cent. of the issued share capital of Holdco; or

- (c) following an IPO, any group of persons (which group is not composed of either of the Sponsors and/or any funds (including limited partnerships, corporations or trusts) controlled, the economic interests of which are owned, or managed, by the Sponsors) acting in concert gains direct or indirect control of Holdco,

for the purposes of this definition:

- (d) **acting in concert** means a group of persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition (directly or indirectly) of shares in Holdco by any of them, either directly or indirectly to obtain or consolidate control of Holdco;
- (e) **control** means the power to direct the management and policies of Holdco whether by virtue of share ownership, contract or otherwise; and
- (f) **IPO** means a listing of all or any part of the share capital of any of the Holding Companies of Holdco on any recognised investment exchange (as that term is defined in the Financial Services and Markets Act 2000 (England and Wales)) or other exchange or market in any jurisdiction or country.;

“Channel Tunnel” means the existing fixed link under the English Channel between the southern portal in the Department of Pas-de Calais in France and the northern portal in the County of Kent in England together with the terminal areas associated therewith;

“Claims Allocation and Handling Agreement” means the agreement dated 16 October 2003 between Union Railways (South) Limited, Co and EIL (and acceded to by others) relating to the allocation and handling of third party claims against railway industry participants operating on any part of HS1 (as amended from time to time);

“Claims Handling Agreement” means the agreement dated 18 February 1999 between the Secretary of State, LCR, Union Railways (South) Limited, HS1, CTRL(UK) and EIL relating to the handling of certain claims in the name of LCR against the Secretary of State under Schedule 2 of the Development Agreement (as amended from time to time);

“Code” means the U.S. Internal Revenue Code of 1986;

“Combined Swap Transaction” means together a Super Senior Interest Rate Swap Transaction and the corresponding Offsetting Interest Rate Swap Transaction;

“Commitment” means, in relation to a Liquidity Facility Provider, the amount specified opposite its name in the Liquidity Facility Agreement, to the extent not cancelled, reduced or transferred by it in accordance with the terms of the Liquidity Facility Agreement;

“Common Documents” means the HS1 Security Documents, the CTA, the Master Definitions Agreement, the STID, the Account Bank Agreement and the Tax Deed of Covenant;

“Common Safekeeper” means an ICSD in its capacity as common safekeeper or a person nominated by the ICSDs to perform the role of common safekeeper;

“Compliance Certificate” means a certificate in which the Obligors periodically provide certain financial information and statements to the HS1 Security Trustee as required by the CTA;

“Confidential Information” means all information relating to any member of the Holdco Group, the Finance Documents or a Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or a Facility from either:

- (a) any member of the Holdco Group or any of its advisers; or

- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Holdco Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of the disclosure of information provisions of the CTA;
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Holdco Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Holdco Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality;

“Connected Creditor” means Helix Topco, any direct or indirect Subsidiary of Helix Topco, any trust of which Helix Topco or any of its Subsidiaries is a trustee, any partnership of which Helix Topco or any of its Subsidiaries is a partner and any trust, fund or other entity which is managed by, or is under the control of, Helix Topco or any of its Subsidiaries;

“Consolidated Working Capital” means Consolidated Current Commercial Assets minus Consolidated Current Commercial Liabilities. For this purpose:

- (a) **“Consolidated Current Commercial Assets”** means all current assets at the relevant date (other than Cash, any credit receivable for tax on profits, gains or income suffered and Interest receivable) of Holdco Group; and
- (b) **“Consolidated Current Commercial Liabilities”** means all of the current liabilities at the relevant date (excluding any financial indebtedness and liabilities in respect of capital expenditure accrued but not yet paid) and any accrued or unpaid Interest in respect of tax on profits, gains or income and dividends, redemptions and other distributions payable to any member of Holdco Group (whether or not declared)) as at such date;

“Contribution Notice” means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004;

“control” means, with respect to an entity, the power to direct the management and policies of that entity whether by virtue of ownership, share capital, contract or otherwise;

“Control Period” means the period from 14 August 2010 to 31 March 2015 and each subsequent period of five years or such other five year period following a reset as part of an interim review of OMRC;

“Credit Support Annex” or **“CSA”** means each 1995 ISDA Credit Support Annex (Bilateral Form - Transfer) to the schedule to the relevant ISDA Master Agreement;

“CTRL” means CTRL (UK) Limited;

“CTRL Acts” means the Channel Tunnel Rail Link Act 1996 as amended by the Channel Tunnel Rail Link (Supplemental Provisions) Act 2008;

“DB Schenker” means DB Schenker Rail (UK) Limited;

“Debt Life Coverage Ratio” means the ratio, calculated as at the Determination Date next following the date on which the Additional Financial Indebtedness is to be incurred of:

- (a) the aggregate of:
 - (i) the Available Discounted Cashflow in respect of the relevant Determination Date; and
 - (ii) the aggregate amount of Cash and Cash Equivalent Investments held by the Security Group on the relevant Determination Date where such Cash and Cash Equivalent Investments are specifically held for the purposes of the discharge of HS1 Senior Debt whether in an HS1 Defeasance Account or an Obligor Debt Service Reserve Account or any mandatory prepayment account or otherwise;

to:

- (b) the aggregate of:
 - (i) the aggregate principal amount of all HS1 Senior Debt (excluding each WC Facility, the Liquidity Facility and the mark to market Liabilities under the HS1 Hedging Agreements) outstanding as of such Determination Date; and
 - (ii) the net present value of the Hedge Financing Amount discounted at the Hedging Discount Rate;

“Debt Purchase Transaction” means, in relation to a person, a transaction where such member of the Security Group or any Related Party:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any commitment or amount outstanding under an Authorised Credit Facility, or in the case of the Bonds, any such Bonds held by a member of the Security Group or any Related Party, or in the case of the PP Notes, any such PP Notes held by a member of the Security Group or any Related Party or any equivalent transaction having a similar economic effect;

“Default” means

- (a) a Loan Event of Default;
- (b) an event which would be (with the expiry of a grace period, the giving of notice, the making of any determination) a Loan Event of Default; or
- (c) any combination of the foregoing;

“Default Ratio” means 1.05:1;

“Determination Date” means

- (a) in respect of any Additional Financial Indebtedness, the Test Date immediately following the Execution Date; and
- (b) in respect of the Liquidity Facilities, the date which is two Business Days prior to each LF Interest Payment Date;

“Development Agreement” means the agreement dated 28 February 1996 between the Secretary of State and LCR, as amended by the first to the eleventh supplemental agreements, for inter alia the design, construction, financing and maintenance of the proposed rail link between St Pancras International station in the London Borough of Camden and Cheriton in Kent known as HS1;

“Dispute Resolution Agreement” means the agreement between the Secretary of State, LCR, HS1, NR(HS) and others dated 18 February 1999 providing for the resolution for disputes arising out of or in connection with the design, construction, financing, operation and maintenance of HS1 (as amended from time to time);

“Distribution Agreement” means the Section 1 distribution agreement in respect of the operation, maintenance, repair and renewal of the electricity distribution system for Section 1 of the Channel Tunnel Rail Link, and the Section 2 distribution agreement in respect of the operation, maintenance, repair and renewal of the electricity distribution system for Section 2 of the Channel Tunnel Rail Link;

“Discount Rate” means, in respect of the Test Period in respect of which the Debt Life Coverage Ratio is to be tested, the weighted average of the interest rates applicable to the HS1 Senior Debt outstanding at the date the ratio is to be calculated (excluding the amount outstanding in respect of each WC Facility, the Liquidity Facility and the net mark to market Liabilities under the HS1 Hedging Transactions), taking into account the effect of all HS1 Hedging Transactions outstanding at that time, provided that, in respect of any HS1 Senior Debt (excluding the amount outstanding in respect of each WC Facility, the Liquidity Facility and the net mark to market Liabilities under the HS1 Hedging Transactions), in respect of which the principal amount or periodic payments are linked to any inflation rate or similar index rate, the applicable interest rate will be the sum of the real interest rate stated to be applicable in respect of such HS1 Senior Debt plus the Index Rate;

“Discretion Matter” means a matter in which the HS1 Security Trustee may exercise its discretion to approve any request made in a STID Proposal without any requirement to seek the approval of any HS1 Secured Creditor, Issuer Secured Creditor or any of their representatives;

“Dispute” means any dispute arising out of or in connection with the Transaction Documents;

“Direction Notice” means, in respect of any matter which is not the subject of a STID Proposal, an Enforcement Instruction Notice, a Further Enforcement Instruction Notice or a Qualifying HS1 Secured Creditor Instruction Notice, a request made by the HS1 Security Trustee for an instruction from the Qualifying HS1 Secured Creditors as to whether the HS1 Security Trustee should agree to a consent, waiver or modification or exercise a right or discretion pursuant to the Finance Documents and the manner in which it should do so;

“Early Termination Date” has the meaning given thereto in each Hedging Agreement;

“Ebbsfleet Car Park Lease” means the lease entered, or to be entered, into between the Secretary of State and HS1 relating to the car park at Ebbsfleet International;

“EIL” means Eurostar International Limited;

“EIL Track Access Agreement” means the track access agreement between HS1 and EIL dated 14 August 2009;

“Enforcement Action” means:

- (a) demanding payment of any Liabilities;
- (b) accelerating any of the Liabilities or otherwise declaring any Liabilities prematurely due and payable or payable on demand or the premature termination or close-out of any liabilities under a Hedging Agreement (other than such a close out on a voluntary basis which would not result in a breach of the relevant transaction, Hedging Agreement, the CTA or the STID);

- (c) enforcing any Liabilities by attachment, set-off, execution, diligence, arrestment or otherwise;
- (d) crystallising, or requiring the HS1 Security Trustee to crystallise, any floating charge in the HS1 Security Documents;
- (e) enforcing, or requiring the HS1 Security Trustee to enforce, any Security Interests;
- (f) initiating or supporting or taking any action or step with a view to:
 - (i) any insolvency, bankruptcy, liquidation, reorganisation, administration, receivership, administrative receivership, winding up, judicial composition or dissolution proceedings or any analogous proceedings in relation to any Obligor in any jurisdiction;
 - (ii) any voluntary arrangement, scheme of arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings involving any Obligor whether by petition, convening a meeting, voting for a resolution or otherwise;
- (g) bringing or joining any legal proceedings against any Obligor (or any of its Subsidiaries) to recover any Liabilities;
- (h) exercising any right to require any insurance proceeds to be applied in reinstatement of any asset subject to any Security Interests; or
- (i) otherwise exercising any other remedy for the recovery of any Liabilities;

“Enforcement Instruction Notice” means a notice requested by the HS1 Security Trustee from the Qualifying HS1 Secured Creditors at any time the HS1 Security Trustee has actual notice of a Loan Event of Default under the CTA which directs the HS1 Security Trustee to either deliver a Loan Enforcement Notice or take other Enforcement Action, or to deliver a Loan Acceleration Notice to accelerate all of the obligations secured under the HS1 Security;

“Enforcement Period” means any period from and including the date of the delivery of a Loan Enforcement Notice to and excluding the earlier of the date on which the HS1 Secured Liabilities have been discharged in full and the date on which the HS1 Security Trustee, acting in accordance with the instructions of the relevant HS1 Secured Creditors pursuant to the STID, notifies the Obligors that the Enforcement Period has ended;

“Entrenched Rights” are matters which:

- (a) would delay the date fixed for payment of principal or interest in respect of the relevant HS1 Secured Creditor's debt or would reduce the amount of principal or the rate of interest payable in respect of such debt;
- (b) would bring forward the date fixed for payment of principal or interest in respect of an HS1 Secured Creditor's debt or would increase the amount of principal or the rate of interest payable on any date in respect of the HS1 Secured Creditor's debt;
- (c) would have the effect of adversely changing any of the HS1 Post-Enforcement Priority of Payments, the HS1 Pre-Enforcement Priority of Payments or application thereof in respect of an HS1 Secured Creditor (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (d) would have the effect of adversely changing the application of any proceeds of enforcement of the HS1 Security Documents;

- (e) would result in the exchange of the relevant HS1 Secured Creditor's debt for, or the conversion of such debt into, shares, notes or other obligations of any other person;
- (f) would change or would relate to the currency of payment due under the relevant HS1 Secured Creditors debt (other than due to the U.K. adopting the euro);
- (g) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant HS1 Secured Creditor's debt in the event of the imposition of withholding taxes (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (h) would change or would have the effect of changing (i) any of the following definitions: Qualifying HS1 Secured Creditors, Qualifying HS1 Senior Debt, STID Proposal, Discretion Matter, Ordinary Voting Matter, Extraordinary Voting Matter, Voted Qualifying Debt, Reserved Matter, Entrenched Right, HS1 Secured Liabilities; (ii) the Decision Period, Quorum Requirement or voting majority required in respect of any Ordinary Voting Matter, Extraordinary Voting Matter, Qualifying HS1 Secured Creditor Instruction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice; (iii) any of the matters that give rise to Entrenched Rights under the STID or (iv) the scope of Entrenched Rights under the STID;
- (i) would change or would have the effect of changing how Participating Qualifying HS1 Secured Creditors cast their votes or how the applicable votes are determined, or would alter any minimum quorum or voting majorities specified in the relevant Authorised Credit Facility;
- (j) would change or have the effect of changing the Reserved Matters;
- (k) in respect of each Hedge Counterparty:
 - (i) would change or would have the effect of changing any of the following definitions: HS1 Hedge Replacement Premium, Hedging Agreement or Issuer Secured Creditor Entrenched Right;
 - (ii) would change or would have the effect of changing the limits specified in the section entitled "*Summary of the Common Documents – Common Terms Agreement – Hedging Policy – Currency Risk Principles*";
 - (iii) would change or have the effect of changing the definition of Permitted Hedge Termination or any of the Hedge Counterparties' rights to terminate the Hedging Agreements as set out in the Hedging Policy;
 - (iv) would change or have the effect of changing the Loan Events of Default;
 - (v) would change or have the effect of changing the definitions of Loan Acceleration Notice or Loan Enforcement Notice or would change or have the effect of changing the consequences of the delivery of a Loan Acceleration Notice or the HS1 Post Enforcement Priority of Payments;
 - (vi) would change or have the effect of changing the purpose of the Liquidity Facility so as to result in it no longer being available to service payments due under the Hedging Agreements; and
 - (vii) would change or have the effect of changing the disposals provisions of the CTA under which no Obligor may sell, lease, transfer or otherwise dispose of any assets other than as a transaction which would be a Permitted Disposal, Permitted Transaction or a Permitted Payment; and

- (l) in respect of each Liquidity Facility Provider, would change the effect of the HS1 Post Enforcement Priority of Payments or would affect the ability of such Liquidity Facility Provider to enforce its rights under a Liquidity Facility Agreement;

“**Environmental Claim**” means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law;

“**Environmental Law**” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the environment, including, without limitation, any waste;

“**Environmental Permits**” means any permit and other Authorisation required under any Environmental Law for the operation of the business of any member of the Security Group conducted on or from the properties owned or used by any member of the Security Group;

“**Equivalent Amount**” means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate;

“**Escrow Accounts**” means the escrow accounts which HS1 is required to maintain pursuant to the Concession Agreement, the Network Interface Agreement or the HS1 Leases, including without limitation the Renewals Escrow Account, the Operator Escrow Account, the Long Term Charge Escrow Account and any other account required to be opened by HS1 from time to time under the Project Documents in respect of moneys required to be held by it for specified purposes pursuant to the Project Documents;

“**Establishment Date**” means the date on which all conditions precedent to the establishment of the Programme as set forth in the CP Agreement have been satisfied;

“**European Passenger Licence**” means a licence granted pursuant to The Railway (Licensing of Railway Undertakings) Regulations 2005 entitling the holder to provide passenger train services in Great Britain;

“**Excess Cashflow**” means, for any Test Period, Historic Consolidated Cashflow for that Test Period less (except to the extent already deducted in calculating Historic Consolidated Cashflow) Historic Consolidated Debt Service for that Test Period;

“**Exchange Rate**” means the strike rate specified in any related Super Senior Hedging Agreement or Pari Passu Hedging Agreement or, failing that, the spot rate for the conversion of the Non-Base Currency into the Base Currency as quoted by the Agent Bank as at 11.00 a.m.:

- (a) for the purposes of the STID Voting Request, a Enforcement Instruction Notice, a Further Enforcement Instruction Notice, a Direction Notice or a Qualifying HS1 Secured Creditor Instruction Notice (as the case may be), the date on which the request or notice is dated; and
- (b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,

and, in each case, as notified by the Agent Bank to the Bond Trustee;

“**Excluded Group Entity**” means, each Holding Company of Holdco and all shareholders as of each such Holding Company;

“Excluded Tax” means, in relation to any person, any:

- (a) Tax imposed on or calculated by reference to the net income, profits or gains of that person, in each case excluding any deemed income, profits or gains of that person other than to the extent such deemed income, profits or gains are matched by any actual income, profits or gains of an Affiliate of that person;
- (b) Tax that arises from the fraud, gross negligence or wilful default of the relevant person;
- (c) stamp duty or stamp duty reserve tax arising under sections 67, 70, 93 or 96 of the Finance Act 1986 but only to the extent the Tax in question exceeds the Tax that would have arisen but for the existence and effect of those sections (provided that this paragraph (c) shall not apply in relation to the HS1 Security Trustee, the Issuer Security Trustee or the Bond Trustee),

in each case including any related costs, fines, penalties or interest (if any);

“Execution Date” means the date on which the relevant Obligor enters into binding documentation in respect of the Additional Financial Indebtedness;

“Existing Indebtedness” means the financial indebtedness outstanding under the facilities agreement between HS1, Holdco, Bufferco and Lloyds TSB Bank plc, amongst others, dated 5 November 2010, as amended and restated on 29 July 2011;

“Existing Security Agreements” means:

- (a) the security agreement between Holdco, Bufferco and Lloyds TSB Bank plc dated 5 November 2010;
- (b) the security agreement between HS1, CTRL (UK) Limited and Lloyds TSB Bank plc dated 18 November 2010; and
- (c) the security agreement between HSRF and Lloyds TSB Bank plc dated 29 October 2012;

“Existing Security Interests” means any Security Interest granted under the Existing Security Agreements;

“Extraordinary Resolution” means:

- (a) a resolution approved by the Bondholders by a majority of not less than three-quarters of the aggregate Principal Amount Outstanding of the outstanding Bonds who (i) for the time being are entitled to receive notice of a voting matter and (ii) have participated in the approval process in respect of such resolution, subject to the Extraordinary Quorum Requirements; or
- (b) a resolution signed in writing by or on behalf of the holders of not less than three quarters of the aggregate Principal Amount Outstanding of the outstanding Bonds who for the time being are entitled to receive notice of a voting matter, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders;

“Extraordinary STID Resolution” means the resolution required to be passed in respect of an Extraordinary Voting Matter;

“Extraordinary Voting Matters” are matters which:

- (a) would change (i) certain material definitions which relate to the key structural principles on which the voting mechanics of the Extraordinary Voting Matters have been founded, or (ii) any of the matters constituting Extraordinary Voting Matters;

- (b) would change any Loan Event of Default or any Trigger Event each in relation to non-payment, the making of Restricted Payments, financial ratios or credit rating downgrade (in the case of a Trigger Event only);
- (c) would relate to the waiver of any Loan Event of Default or any Trigger Event each in relation to non-payment, credit rating downgrade (in the case of a Trigger Event only), financial ratios or the making of Restricted Payments;
- (d) would change in any adverse respect the restriction on any disposal of HS1 or relate to a consent in respect of any such disposal;
- (e) would materially change or have the effect of materially changing the definition of Permitted Business;
- (f) would change or have the effect of changing the provisions relating to or relate to the waiver of the Additional Financial Indebtedness tests set out in the CTA;
- (g) would result in the Aggregate Available Liquidity being less than the Liquidity Required Amount and, to the extent that the passing of an Extraordinary Resolution on the matters referred to in this sub-paragraph (g) necessitates an amendment to any Trigger Event, the amendment to that Trigger Event shall be an Extraordinary Voting Matter;
- (h) would bring forward the scheduled maturity date of any Financial Indebtedness following the occurrence of a Trigger Event which is continuing; or
- (i) would release any of the HS1 Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Common Documents;

“Facility Agent” means, as the context requires, any or all of the Initial ACF Agent, the Initial Liquidity Facility Agent and any agent appointed in respect of any Authorised Credit Facility;

“Facilities” means, together, the Authorised Credit Facilities;

“Final Maturity Date” means:

- (a) in relation to a Bond, the final date on which that Bond is expressed to be redeemable; and
- (b) in relation to any Authorised Credit Facility, the date on which all financial accommodation made available under that Authorised Credit Facility is expressed to be repayable in full (without any further obligation of the relevant Authorised Credit Provider to continue to make available such financial accommodation);

“Finance Document” means:

- (a) each Hedging Agreement;
- (b) each IBLA;
- (c) the Initial Authorised Credit Facilities Agreement;
- (d) an HS1 Security Document;
- (e) the CTA;
- (f) the Master Definitions Agreement;
- (g) the Account Bank Agreement;

- (h) the Liquidity Facility Agreement;
- (i) (A) any fee letter, commitment letter or request entered into in connection with (i) the facilities referred to in paragraph (c) above or (n) below or the transactions contemplated in such facilities and (B) any other document that has been entered into in connection with such facilities or the transactions contemplated thereby that has been designated as a Finance Document by the parties thereto (including at least one Obligor);
- (j) each CP Agreement;
- (k) the Tax Deed of Covenant;
- (l) each agreement or other instrument between at least one Obligor and an Additional HS1 Secured Creditor designated as a Finance Document by at least one Obligor, the HS1 Security Trustee and such Additional HS1 Secured Creditor in the Accession Memorandum for such Additional HS1 Secured Creditor;
- (m) the PP Note Documents;
- (n) any other Authorised Credit Facilities; and
- (o) any amendment and/or restatement agreement relating to any of the above documents;

“Finance Party” means any person providing credit pursuant to an Authorised Credit Facility including all arrangers, agents, representatives and trustees appointed in connection with any such Authorised Credit Facilities;

“Financial Covenant Trigger Event” means the Level 2 Trigger Event relating to financial ratios;

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys borrowed and debit balances at banks or other financial institutions;
- (b) any acceptance under any acceptance credit or bill discounting facility (or dematerialised equivalent);
- (c) any Bond purchase facility or the issue of bonds, Bonds, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of finance leases (other than the leases referred to in the UKPN Umbrella Agreement);
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non recourse basis);
- (f) any Treasury Transaction (and, when calculating the value of that Treasury Transaction, only the marked to market loss to the Security Group (or, if any actual amount is due from the Security Group as a result of the termination or close-out of that Treasury Transaction, that amount) shall be taken into account);
- (g) any counter indemnity obligation in respect of any guarantee, indemnity, bond, standby or documentary letter of credit or other instrument issued by a bank or financial institution;
- (h) any amount raised by the issue of redeemable shares which are redeemable (other than at the option of the Issuer) before the Final Maturity Date or are otherwise classified as borrowings under the Accounting Standards;

- (i) any amount of any liability under an advance or deferred purchase agreement if (i) one of the primary reasons behind entering into the agreement is to raise finance or to finance the acquisition or construction of the asset or service in question or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date of supply; or
- (j) any amount raised under any other transaction (including any forward sale or purchase, sale and sale back or sale and leaseback agreement) having the commercial effect of a borrowing or otherwise classified as borrowings under the Accounting Standards; and
- (k) the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (j) above,

but in each case without double counting;

“Financial Ratios” means the following, which are to be calculated by reference to the most recent Test Date:

- (a) the ratio of Historic Consolidated Cashflow to Historic Consolidated Debt Service in respect of the relevant Test Period; and
- (b) the ratio of Projected Consolidated Cashflow to Projected Consolidated Debt Service in respect of the relevant Test Period;

“Financial Ratio Event of Default” means a Loan Event of Default caused by a breach of the financial covenants;

“Financial Statements” means, at any time, the financial statements of an Obligor and, in the case of Holdco, additionally consolidated financial statements of itself and its subsidiaries, most recently delivered to the HS1 Security Trustee;

“Financial Support Direction” means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004;

“Financial Year” means: the annual accounting period of the Security Group ending on 31 March, unless changed in accordance with the terms of the Common Terms Agreement;

“Financiers’ Security Documents” means the HS1 Security Agreement and each other HS1 Security Document and the Issuer Deed of Charge;

“Five Year Asset Management Statement” means the statement produced by HS1 (as approved or determined by the ORR) in accordance with Schedule 10 (Asset Stewardship and Periodic Review) of the Concession Agreement which sets out amongst other things:

- (a) any proposed changes to the track access performance regimes and/or the track access OMRC charging provisions;
- (b) any proposed changes to the Asset Management Strategy;
- (c) a cost efficiency plan for the following five year period; and
- (d) a forecast of the demand and traffic level for the following five year period;

“Further Authorised Credit Provider” means any Authorised Credit Provider which accedes to the CTA and the STID following the Establishment Date;

“Further Enforcement Instruction Notice” means a notice requested by the HS1 Security Trustee from the Qualifying HS1 Secured Creditor (through their Secured Creditor Representative) at any time

following the delivery of a Loan Enforcement Notice, and after the HS1 Security Trustee has received a Qualifying HS1 Secured Creditor Instruction Notice;

“Governmental Authority” means any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government;

“Group Relief” means any loss, allowances or other amount eligible for surrender by way of group relief under Part 5 of the Corporation Tax Act 2010;

“Guarantee” means the guarantee set out in clause 19.2(a)(i) of the HS1 Security Agreement;

“Hedge Financing Amount” means, in respect of a Determination Date, an amount equal to:

- (a) the aggregate of:
 - (i) the periodic payments that are payable by HS1 under each Super Senior Interest Rate Swap Transaction during the period from such Determination Date to the scheduled termination date of each such Super Senior Interest Rate Swap Transaction; and
 - (ii) the periodic payments that are payable by HS1 under each Offsetting Interest Rate Swap Transaction during the period from such Determination Date to the scheduled termination date of each such Offsetting Interest Rate Swap Transaction,minus
- (b) the aggregate of:
 - (i) the periodic payments that are payable by the relevant Hedge Counterparties under each Super Senior Interest Rate Swap Transaction during the period from such Determination Date to the scheduled termination date of each such Super Senior Interest Rate Swap Transaction; and
 - (ii) the periodic payments that are payable by the relevant Hedge Counterparties under each Offsetting Interest Rate Swap Transaction during the period from such Determination Date to the scheduled termination date of each such Offsetting Interest Rate Swap Transaction;

“Hedging Agreement” means a HS1 Hedging Agreement, an Issuer Hedging Agreement or, where the context requires, both;

“Hedging Discount Rate” means, in respect of a Determination Date, a rate of interest determined by HS1 (acting in good faith and in a commercially reasonable manner) on or around the Initial Issue Date as being relevant to such Determination Date that is equal to the rate of interest that would be payable by HS1 in relation to an amortising debt equal to the Hedge Financing Amount on such Determination Date.

“Hedging Limit” has the meaning given to it in the Hedging Policy;

“Hedging Transaction” means an HS1 Hedging Transaction, an Issuer Hedging Transaction, a Revenue Transaction or, where the context requires, all of the above;

“Helix Topco” means Helix Holdings Limited, a company incorporated under the laws of Jersey, with registered number 106823, and having its registered office at Portman House, Hue Street, St Helier, Jersey, JE4 5RP;

“Historic Capital Expenditure” means, as at the relevant Test Date, any Capital Expenditure incurred during the relevant historic Test Period, but shall not include any amount:

- (a) to the extent that it has previously been taken into account for the purposes of making a calculation hereunder;
- (b) in respect of Capital Expenditure funded by way of a drawing from the balance standing to the Renewals Escrow Account or any other Escrow Account which to which sums are credited to fund Capital Expenditure; or
- (c) to the extent that it is funded by way of a grant or other financial accommodation provided by any government entity or organisation (including, without limitation, Network Rail);

“**Historic Change in Consolidated Working Capital**” means in respect of a Test Date, the difference between:

- (a) Consolidated Working Capital on that Test Date;
- (b) Consolidated Working Capital on the Test Date 12 months prior to such Test Date,

and for the purpose of the definition of “**Historic Consolidated Cashflow**”, if (a) exceeds (b), the difference shall be treated as a positive figure and, if (b) exceeds (a), the difference shall be treated as a negative figure;

“**Historic Consolidated Cashflow**” for any Test Period means Historic Consolidated EBITDA for such period:

- (a) **plus** the amount of any rebate or credit in respect of any tax on profits, gains or income actually received in cash by any member of Security Group during such period;
- (b) **plus** the amount (net of any applicable withholding tax) of any dividends or other profit distributions received in cash by any member of Security Group during such period from any entity which is not itself a member of Security Group;
- (c) **plus** any interest credited to, or received by, any member of the Security Group pursuant to any balances on account;
- (d) **minus** all Historic Capital Expenditure contractually falling due for payment by Security Group during such period (to the extent not taken into account in calculating Historic Consolidated EBITDA for such period);
- (e) **minus** all amounts of tax on profits, gains or income actually paid or which fell due for payment during such period and **minus** the amount of any withholding tax withheld from any amount payable to any member of Security Group which has been taken into account in calculating Historic Consolidated EBITDA for such period;
- (f) **minus** any increase or **plus** any decrease in Historic Change in Consolidated Working Capital during such Test Period;
- (g) **minus** all non-cash credits and plus all non-cash debits and other non-cash charges included in establishing Historic Consolidated EBITDA for such period (to the extent not included in calculating Historic Change in Consolidated Working Capital as at the end of such Test Period); and
- (h) **plus** any positive and **minus** any negative extraordinary or exceptional items which are paid or which fall due for payment by any member of Security Group in cash during such period to the extent not already taken into account in calculating Historic Consolidated EBITDA for such period (but **excluding** any gain or any loss on any HS1 Senior Debt owned and sold (or otherwise disposed of) by an Obligor during such period other than any gain or loss on HS1 Senior Debt which has been owned by an Obligor for a period in excess of 12 months);

“**Historic Consolidated Debt Service**” for any Test Period means the amount of all scheduled payments of Interest payable in respect of the HS1 Senior Debt by HS1 during such period;

- (a) **plus** the amount of all scheduled payments of principal in respect of the HS1 Senior Debt which fell due for repayment during the such period whether or not paid during or deferred for payment after such period (but **excluding** the amount of principal payable on the Final Maturity Date in respect of any Authorised Credit Facility);
- (b) **excluding** the amount of principal which fell due as a result of any mandatory prepayment requirement during such period;
- (c) **excluding** the amount of principal paid as a result of a voluntary prepayment made during such period;
- (d) **excluding** the amount of any Make-Whole Amount paid during such period;
- (e) **excluding** the amount of any early termination payment made in respect of any Hedging Transaction paid during such period;
- (f) **minus** any interest credited to, or received by, any member of the Security Group during such period pursuant to any balances on account;
- (g) **minus** the amount of all payments received under any Revenue Transaction during such period; and
- (h) **minus** the amount of all scheduled Interest and principal payable in respect of the HS1 Senior Debt by HS1 during such period to the extent such payments are payable in respect of HS1 Senior Debt owned by an Obligor at the time such payment is to be made;

“**Historic Consolidated EBITDA**” for any Test Period means the operating profit of Security Group for such period:

- (a) **before deducting** any depreciation or amortisation whatsoever;
- (b) **before taking into account** all extraordinary items (whether positive or negative) but **after taking into account** all exceptional items (whether positive or negative);
- (c) **before deducting** any amount of Tax on profits, gains or income paid or payable by Security Group and any amount of any rebate or credit in respect of Tax on profits, gains or income received or receivable by Security Group during such period;
- (d) **before taking into account** Interest accruing as an obligation of or owed to any member of Security Group whether or not paid, deferred or capitalised during such period;
- (e) **before taking into account** (to the extent otherwise included) any unrealised gains or losses due to exchange rate movements;
- (f) **after adding back** (to the extent otherwise deducted) any loss against book value incurred by Security Group on the disposal of any asset (other than the sale of trading stock) during such period;
- (g) **after deducting** (to the extent otherwise included) any gain over book value arising in favour of Security Group on the disposal of any asset (other than the sale of trading stock) during such period and any gain arising on any revaluation of any asset during such period;
- (h) **after deducting** (to the extent not otherwise deducted) any amounts payable in respect of the leases referred to in paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness; and

- (i) **without taking into account** any amounts paid into or withdrawn from any Escrow Accounts in accordance with any Project Document;

“Historic DSCR” means, in respect of a Test Period, the ratio of Historic Consolidated Cashflow to Historic Consolidated Debt Service for the relevant historic Test Period;

“Holdco Group” Holdco and each Holdco Subsidiary;

“Holdco Subsidiary” means each Subsidiary of Holdco;

“Holding Company” means a holding company within the meaning of section 1159 of the Companies Act;

“HS1 Auditors” means PricewaterhouseCoopers, Ernst & Young, KPMG or Deloitte & Touche or such other independent public accountants of international standing which may be appointed by HS1 as its auditors with the prior approval of the HS1 Security Trustee;

“HS1 Debt Service Reserve Account” means the account opened and maintained by HS1 entitled **“HS1 Debt Service Reserve Account”** which may be credited with a cash reserve for satisfying all or part of the minimum debt service funding requirements set out in the section entitled *“Summary of the Common Documents – Common Terms Agreement – Trigger Events – Level 2 Trigger Events – Liquidity Required Amount”* or such other account as may be opened, with the consent of the HS1 Security Trustee, at any branch of the Account Bank in replacement of such account;

“HS1 Defeasance Account” means each account opened by HS1 or HSRF, as the case may be, with the Account Bank in accordance with the Account Bank Agreement in respect of HS1 Defeased Debt;;

“HS1 Defeasance Amount” means amounts standing to the credit of the HS1 Defeasance Accounts or any amount representing proceeds of withdrawal from the HS1 Defeasance Accounts (other than amounts permitted to be withdrawn from the HS1 Defeasance Accounts in accordance with the terms of the CTA);

“HS1 Defeasance Creditor” means each HS1 Secured Creditor in respect of whom HS1 Defeased Debt is outstanding;

“HS1 Defeased Debt” means any HS1 Senior Debt (including each IBLA) in respect of which the relevant Secured Creditor Representative (or, in respect of any IBLA, the Issuer) has designated the relevant HS1 Senior Debt as HS1 Defeased Debt;

“HS1 Freight Access Terms” means the High Speed 1 Freight Access Terms, governing amongst other things, HS1’s standard of performance, compensation for restrictions of use, a performance regime and payments, including the mechanics for calculating track access charges, incorporated by reference into each FTAA and Track Access Agreement entered into by HS1 and a TOC that operates freight services;

“HS1 Hedge Collateral Account” means each account in the name of HS1 titled "HS1 Hedge Collateral Account" opened at the Account Bank in accordance with the provisions of the CTA and the Account Bank Agreement and includes any sub-account or any securities account or any other custody account relating to that account and any replacement account from time to time;

“HS1 Hedge Replacement Premium” means a premium or upfront payment received by HS1 from a replacement hedge counterparty under a replacement hedge agreement entered into with HS1 to the extent of any termination payment due to a HS1 Hedge Counterparty under a HS1 Hedging Agreement;

“HS1 Hedging Transaction” means any fixed rate, currency, inflation-linked, index-linked or Treasury Transaction with respect to the HS1 Senior Debt, or any other Treasury Transaction governed by an HS1 Hedging Agreement and entered into with HS1 in accordance with the Hedging Policy;

“HS1 Lease Deed of Charge” means the agreed form deed of charge between HS1 and the Secretary of State over the Escrow Accounts securing all present and future indebtedness, moneys, obligations and liabilities of or from HS1 to the Secretary of State in respect of stations repair and renewal under the lease referred to in paragraph (i) of the definition of HS1 Leases;

“HS1 Liquidity Standby Account” means the reserve account to be opened, if required, in the name of HS1 and held at the applicable Liquidity Facility Provider in respect of whom the Standby Drawing has been made or, if such Liquidity Facility Provider does not have the Requisite Rating, at the Account Bank;

“HS1 Liquidity Shortfall” means after taking into account Cash Available to HS1, with respect to any LF Interest Payment Date (as determined by the Cash Manager on the Determination Date in respect of that LF Interest Payment Date), there will be insufficient funds to pay on such LF Interest Payment Date any of the amounts to be paid in respect of items (a) to (g) (inclusive) of the HS1 Post-Enforcement Priority of Payments and items (a) to (g) (inclusive) of the HS1 Pre-Enforcement Priority of Payments (excluding, for the avoidance of doubt (i) any amounts in respect of the WC Facility or any IBLA, (ii) payments of principal (other than where such payments are part of the scheduled amortisation (including any final payment on a Final Maturity Date) of the relevant HS1 Senior Debt), (iii) any principal exchange payments, termination payments and all other unscheduled amounts payable to any HS1 Hedge Counterparty; (iv) any payment under any back to back hedging agreement between the Issuer and any Obligor, and (v) accretions due under index-linked hedging and principal exchanges under any HS1 Hedging Agreements entered into in respect of currency risks);

“HS1 Network Code” means the document entitled the “HS1 Network Code” dated August 2009 (as may be amended from time to time), governing amongst other things, HS1’s standard of performance, compensation for restrictions of use, a performance regime and payments, including the mechanics for calculating track access charges, incorporated by reference into each FTAA and Track Access Agreement entered into by HS1 and a TOC that operates passenger services;

“HS1 Operating Accounts” means those bank accounts of HS1 opened with the Account Bank in accordance with the Account Bank Agreement but excluding any HS1 Defeasance Accounts, the Escrow Accounts, any HS1 Specific Accounts, the HS1 Debt Service Reserve Account, the HS1 Hedge Collateral Account and the HS1 Liquidity Standby Account;

“HS1 Passenger Access Terms” means the document entitled “High Speed 1 Passenger Access Terms” (as amended from time to time);

“HS1 Rail Link” means the rail link between St Pancras in the London Borough of Camden and Cheriton in Kent known as the “Channel Tunnel Rail Link” and including: (i) a lease of the track and operational facilities (including St Pancras International, Stratford International, Ebbsfleet International and Temple Mills Depot); (ii) a lease of Ashford International Station; and (iii) a lease of the international platforms at Ashford International Station;

“HS1 Secured Liabilities” means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Obligor to any HS1 Secured Creditor under each Finance Document to which such Obligor is a party, except for any obligation which, if it were secured under the HS1 Security Documents, would result in a contravention of sections 678 and 679 of the Companies Act 2006;

“HS1 Security” means the security constituted by the HS1 Security Documents including any guarantee or obligation to provide cash collateral or further assurance thereunder, including the following:

- (a) fixed charge over all shares;
- (b) assignments by way of security of its rights under the Finance Documents to which it is a party, including the HS1 Hedging Agreements, the CTA, each Liquidity Facility Agreement and the STID;

- (c) assignments by way of security of the benefit of insurance policies;
- (d) fixed or floating charges over bank accounts (depending on the relevant account) and charges over investments; and
- (e) a floating charge over all of its assets to the extent not effectively charged or assigned by way of fixed security;

“**HS1 Security Agreement**” means the deed of charge and guarantee executed in favour of the HS1 Security Trustee by each of the Obligor on or about the Establishment Date and any other deed of charge supplemental thereto;

“**HS1 Security Documents**” means:

- (a) the HS1 Security Agreement;
- (b) the STID and each deed of accession thereto, together with any deed supplemental to the STID and referred to in the STID as a “Supplemental Deed”;
- (c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to an HS1 Secured Creditor in respect of the HS1 Secured Liabilities;

“**HS1 Senior Debt**” means any financial accommodation that is, for the purposes of the STID, to be treated as HS1 Senior Debt and includes:

- (a) each Authorised Credit Facility, each WC Facility, each IBLA, the Liquidity Facility, the PP Notes and any and all net liabilities under the HS1 Hedging Agreements (including the *Pari Passu* HS1 Hedging Agreements and the Super Senior HS1 Hedging Agreements); and
- (b) any further debt incurred which ranks *pari passu* with the debt specified in (a) above;

“**HS1 Specific Accounts**” means any bank account of HS1 opened or required to be opened in respect of a grant or other financial accommodation provided by any government entity or organisation (including, without limitation, Network Rail) to the extent such grant or other financial accommodation is provided in order to be applied for a specific purpose;

“**HS1 Standby Reserve Ledger**” means the sub-ledger in which all Standby Drawings which are deposited into the HS1 Debt Service Reserve Account are recorded prior to the satisfaction of certain conditions set out in the Liquidity Facility Agreement;

“**HS1 Subordinated Hedge Amounts**” means any termination payment due or overdue to an HS1 Hedge Counterparty under any HS1 Hedging Agreement which arises as a result of the occurrence of an Event of Default (as defined in the relevant Hedging Agreement) where the relevant HS1 Hedge Counterparty is the Defaulting Party (as defined in the relevant HS1 Hedging Agreement) or the occurrence of an Additional Termination Event (as defined in the relevant HS1 Hedging Agreement) following the failure of the relevant HS1 Hedge Counterparty to take action in accordance with the terms of the relevant HS1 Hedging Agreement within the required period following a credit rating downgrade of such HS1 Hedge Counterparty (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the relevant HS1 Hedge Counterparty to enter into a transaction to replace a HS1 Hedging Agreement (in whole or in part) which shall be paid directly to HS1 Hedge Counterparties and not in accordance with HS1 Post-Enforcement Priority of Payments);

“**HSRF Debt Service Reserve Account**” means the account opened and maintained by HSRF which may be credited with a cash reserve for satisfying all or part of the minimum debt service funding requirements set out in the Common Terms Agreement, or such other account as may be opened, with

the consent of the HS1 Security Trustee, at any branch of the Account Bank in replacement of such account;

“HSRF Liquidity Standby Account” means the reserve account to be opened, if required, in the name of HSRF and held at the applicable Liquidity Facility Provider in respect of whom the Standby Drawing has been made or, if such Liquidity Facility Provider does not have the Requisite Rating, at the Account Bank;

“HSRF Operating Accounts” means those bank accounts in the name of HSRF opened with the Account Bank in accordance with the Account Bank Agreement but excluding the HSRF Debt Service Reserve Account and the HSRF Liquidity Standby Account;

“ICSDs” means Clearstream, Luxembourg and Euroclear;

“IFRS” means the International Financial Reporting Standards set by the International Accounting Standards Board;

“IKF Franchise” means the franchise agreement which expires in March 2014 between the Secretary of State and LSER for the provision by LSER of domestic passenger services between Kent and London on both the Classic Network and on High Speed 1;

“Incremental Debt” means any Financial Indebtedness which is in excess of the principal amount outstanding under the HS1 Senior Debt from time to time (ignoring any inflation linked accretions in respect of any such debt) which is to be incurred for the purposes of making any Restricted Payment or any Permitted Acquisition in excess of £10,000,000 (Indexed) at any time **but excluding** any Financial Indebtedness incurred by any Obligor in respect of Capital Expenditure, to fund the working capital requirements of the Obligors or in respect of the refinancing of any existing Financial Indebtedness;

“Index Rate” means, in respect of the calculation of the Debt Life Coverage Ratio, a percentage equal to the average of:

- (a) the relevant published inflation rate or other index rate in the U.K. to which the relevant HS1 Senior Debt is linked for the period commencing 12 months prior to the first day of the applicable Test Period and ending on the day before the start of the applicable Test Period; and
- (b) the relevant published inflation rate or other index rate in the U.K. to which the relevant HS1 Senior Debt is linked for the period commencing 24 months prior to the first day of the applicable Test Period and ending 12 months prior to the first day of the applicable Test Period.

“Indexed” means, in respect of any reference to that amount, an amount to that amount (as previously indexed) as such amount may be adjusted up or down at the beginning of each calendar year by a percentage equal to the amount of percentage increase or, as the case may be, decrease in the Retail Price Index for such year or as is otherwise specified in the relevant Finance Document;

“Initial ACF Agent” means Lloyds TSB Bank plc as agent under the Initial Authorised Credit Facilities, or any of its successors thereto;

“Initial ACF Arrangers” means BNP Paribas, London Branch, Export Development Canada, Lloyds TSB Bank plc, National Australia Bank Limited, Scotiabank (Ireland) Limited and The Royal Bank of Scotland plc as arrangers under the Initial Authorised Credit Facilities;

“Initial Authorised Credit Facilities” means:

- (a) the senior term facilities of an aggregate facility amount of up to £315,000,000 to be made available to HS1 by the Original Initial ACF Lenders on or about the Initial Issue Date pursuant to the Initial Authorised Credit Facilities Agreement; and

(b) the Initial WC Facility;

“Initial Authorised Credit Facilities Agreement” means the Authorised Credit Facility entered into on or about the Initial Issue Date between HS1, the Initial ACF Agent, the Initial ACF Arrangers and the Original Initial ACF Lenders;

“Initial IBLA” or **“Initial Issuer Borrower Loan Agreement”** means the loan agreement entered into between the Issuer and HS1 on the Initial Issue Date;

“Initial Issue Date” means the date upon which the first Series of Bonds is issued by the Issuer;

“Initial Liquidity Facility Agent” means Lloyds TSB Bank plc as facility agent under the Initial Liquidity Facility Agreement;

“Initial Liquidity Facility Agreement” means the liquidity facility agreement to be dated on or about the Initial Issue Date entered into between, among others, HS1, HSRF, the Issuer and the Initial Liquidity Facility Provider(s);

“Initial Liquidity Facility Providers” means those financial institutions who accede to the Initial Liquidity Facility Agreement or any other party that accedes to the Initial Liquidity Facility Agreement as a Liquidity Facility Provider;

“Initial PP Note Purchase Agreement Change of Control” means:

(a) the Borealis, OTPP, any other Persons approved in writing by the Required Holders (acting reasonably) (the **“Initial Investors”**) and/or any funds (including limited partnerships, corporations or trusts) controlled, the economic interests of which are owned, or managed, by the Initial Investors, between them, cease to:

- (i) legally and beneficially own and control (directly or indirectly) (A) at least 50% of the issued voting share capital of Bufferco and (B) at least 50% or more of the issued share capital and shareholder debt of Bufferco; or
- (ii) have directly or indirectly the power to appoint or remove at least half of the directors of Bufferco, HS1 and HSRF; or

(b) either:

- (i) Bufferco ceases directly or indirectly to own all of the issued share capital of Holdco, HS1 and HSRF to which are attached economic rights (currently, the A shares), but excluding shares to which are attached nominal economic rights (currently, the B shares); or
- (ii) Bufferco, the Initial Investors and any other investor (together with one or more funds, including limited partnerships, corporations or trusts, established for the purposes of ensuring its compliance with the Pension Benefits Act (Ontario) or any other Canadian provincial or federal law governing investments made by a Canadian pension fund) which may hereafter acquire shares directly in Bufferco, Holdco, HS1 and/or HSRF, between them cease to have directly or indirectly the power to appoint or remove all, or the majority, of the directors of Helix, HS1 and/or HSRF, as the case may be (provided that the acquisition of shares of Bufferco, Helix, HS1 and/or HSRF, by such other Investor does not in and of itself trigger an Initial PP Note Purchase Agreement Change of Control within the meaning of paragraph (a) above).

“Initial PP Note SCR Agreement” means the secured creditor representative agency deed dated 29 October 2012 between HSRF, the Initial PP Note Secured Creditor Representative and the Initial PP Noteholders;

“Initial PP Note Secured Creditor Representative” means Wilmington Trust (London) Limited as Secured Creditor Representative for the Initial PP Noteholders;

“Initial WC Facility” means the working capital facility of an aggregate facility amount of up to £65,000,000 to be made available to HS1 by the Original Initial ACF Lenders on the Initial Issue Date pursuant to the Initial Authorised Credit Facilities Agreement;

“Insolvency Act” means the Insolvency Act 1986;

“Insolvency Event” means, in respect of any company:

- (a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order which proceedings (other than in the case of the Issuer) are not, in the opinion of the HS1 Security Trustee, being disputed in good faith with a reasonable prospect of success or which are or frivolous or vexatious and discharged, stayed or dismissed within 10 Business Days of commencement or, if earlier, the date on which it is advertised;
- (b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in respect of such company (other than in relation to an Insolvency Event of the Issuer under a Liquidity Facility Agreement, any such giving of notice, making of an administration order or appointment of an administrator which is commenced by action taken by the company itself (or its directors) under paragraphs 12(1)(a) and (b) and/or paragraph 22 of Schedule B1 to the Insolvency Act) or where any such step or procedure is contemplated by paragraph (b) of the definition of Permitted Transaction;
- (c) an encumbrancer (excluding, in relation to the Issuer, the Issuer Security Trustee or any receiver appointed by the Issuer Security Trustee) taking possession of the whole or any part of the undertaking or assets of such company;
- (d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, the Issuer Security Trustee or any receiver appointed by the Issuer Security Trustee) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;
- (e) a composition, compromise, assignment or arrangement with creditors of such company (as part of a general composition, compromise, assignment or arrangement affecting such company’s creditors generally) other than a composition compromise, assignment or arrangement with respect to any subordinated Financial Indebtedness, any intragroup loan or guarantee;
- (f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation or dissolution of such company (except, in the case of the Issuer, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Bond Trustee or by an Extraordinary Resolution);
- (g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;
- (h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such company of an intention to do so; or
- (i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such company;

“Insolvency Official” means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all (or substantially all) of the company’s assets or in respect of any arrangement or composition with creditors;

“Insolvency Proceedings” means, in respect of any company, the winding up, liquidation, dissolution or administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company, carries on business including the seeking of liquidation, winding up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors;

“Insolvency Regulation” means the EC Regulation on Insolvency Proceedings 2000 (Council Regulation (EC) No. 1346/2000 of 29th May, 2000);

“Instalment Date” means each date on which each Instalment Bond which provides for instalment dates (as specified in the relevant Final Terms) will be partially redeemed;

“Insurance” means, as the context may require, any contract of insurance required pursuant to the CTA and any other contract or policy of insurance taken out by or on behalf of an Obligor from time to time, including in each case any future renewal or replacement of any such insurance whether with the same or different insurers and whether on the same or different terms;

“Insurer” means each insurer from time to time of, or in relation to, any Insurances;

“Intellectual Property Rights” means any right in:

- (a) copyright (including rights in software and preparatory design materials), get up, trade names, internet domain names, patents, inventions, rights in confidential information, database rights, moral rights, semiconductor topography rights, trade secrets, know how, trade marks, service marks, logos and registered designs and design rights (each whether registered or unregistered);
- (b) applications for registration and the right to apply for registration, for any of the above; and
- (c) all other intellectual property rights in each case whether registered or unregistered and including applications for registration and all rights or equivalent or similar forms of protection having equivalent or similar effect anywhere in the world;

“Interest” means:

- (a) interest and amounts in the nature of interest accrued;
- (b) prepayment penalties or premia incurred in repaying or prepaying HS1 Senior Debt;
- (c) discount fees and acceptance fees payable or deducted in respect of any HS1 Senior Debt, including fees payable in respect of any letters of credit and guarantees;
- (d) any net payment (or, if appropriate in the context, receipt) or under any interest rate or cross currency hedging agreement or instrument (including under the Hedging Agreements other than the Revenue Transactions), taking into account any premia payable; and
- (e) any other payment and deduction of similar effect;

“Interest Rate Hedging Agreement” means any Hedging Agreement which governs, inter alia, a Treasury Transaction in respect of any interest rate hedging including, without limitation, through an inflation or inflation linked transaction;

“Investment Grade” means a rating of at least BBB- by Fitch, Baa3 by Moody’s or BBB- by S&P;

“Investor” means the Holding Company of HS1, each of its Holding Companies and any other Affiliate of such person and any other person who is issued or holds Investor Debt at any time;

“Investor Debt” means the amount outstanding, from time to time, under any Investor Funding Loan;

“Investor Funding Loan” means:

- (a) as at the Initial Issue Date, Financial Indebtedness incurred whether by way of bond or note issuance or debt facilities by Bufferco or Holdco and owed (directly or indirectly) to Borealis or OTPP and their or any subsequent successors or assigns or transferees; and
- (b) any loan made or deemed to be made by any Excluded Group Entity to any member of the Security Group, provided that the Excluded Group Entity has acceded to the STID as a Subordinated Intragroup Creditor prior to the making of the loan;

“Investor Presentation” means any written investor presentation (approved in writing for such use in advance and signed or initialled for identification purposes by the Issuer) used in connection with marketing and investor presentations in respect of the Bonds. For the avoidance of doubt, the Prospectus is not an Investor Presentation;

“Investor Report” means each report produced by the Security Group Agent to be delivered by each Reporting Date in each year;

“ISDA Master Agreement” means an agreement in the form of the 1992 ISDA Master Agreement (Multi-Currency – Cross Border) or 2002 ISDA Master Agreement (including the schedule and credit support annex thereto) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee acting in accordance with the STID;

“Issuer Cash Management Agreement” means the cash management agreement dated on or about the Establishment Date between, among others, the Issuer, the Cash Manager and the Issuer Security Trustee;

“Issuer Charged Documents” means the Issuer Transaction Documents and the Finance Documents to which the Issuer is a party and all other contracts, documents, agreements and deeds to which it is, or may become, a party (other than the Issuer Deed of Charge, the Bond Trust Deed and the Issuer Corporate Services Agreement);

“Issuer Corporate Services Agreement” means the corporate services agreement to be dated on or about the Establishment Date between the Issuer and the Issuer Corporate Services Provider;

“Issuer Corporate Services Provider” means Structured Finance Management Limited and any successors thereto;

“Issuer Debt Service Reserve Account” means the account opened and maintained by the Issuer and entitled the “Issuer Debt Service Reserve Account” which may be credited with a cash reserve for satisfying all or part of the minimum debt service funding requirements set out in the CTA, or such other account as may be opened, with the consent of the Issuer Security Trustee, at any branch of the Account Bank in replacement of such account;

“Issuer Deed of Charge” means the deed of charge to be entered into between, amongst others, the Issuer and the Bond Trustee on or about the Establishment Date;

“Issuer Determination Date” means the date which is five Business Days prior to each Interest Payment Date;

“Issuer Hedge Collateral Account” means each account of the Issuer titled "Issuer Hedge Collateral Account" opened at the Account Bank in accordance with the provisions of the Issuer Cash Management Agreement and includes any sub-account or any securities account or any other custody account relating to that account and any replacement account from time to time;

“Issuer Hedge Collateral Amounts” means the amount standing to the credit of the Issuer Hedge Collateral Account which shall be paid directly to the relevant Issuer Hedge Counterparty;

“Issuer Hedging Transaction” means any fixed rate, currency, inflation-linked or index linked or any other Treasury Transaction governed by an Issuer Hedging Agreement and entered into with the Issuer in accordance with the Hedging Policy;

“Issuer Liquidity Shortfall” means after taking into account Cash Available to the Issuer, with respect to any LF Interest Payment Date (as determined by the Cash Manager on the Determination Date in respect of that LF Interest Payment Date), there will be insufficient funds to pay on such LF Interest Payment Date any of the amounts to be paid in respect of items (a) to (f) (inclusive) of the Issuer Post-Enforcement Priority of Payments and items (a) to (g) (inclusive) of the Issuer Pre-Enforcement Priority of Payments (excluding, for the avoidance of doubt: (i) payments of principal (other than where such payments are part of the scheduled amortisation (including any final payment on a Final Maturity Date) of the relevant Issuer Senior Debt); (ii) any principal exchange payments, termination payments and all other unscheduled amounts payable to any Issuer Hedge Counterparty; (iii) any payment under any back to back hedging agreement between the Issuer and any Obligor; and (iv) accretions due under index-linked hedging and principal exchanges under any Issuer Hedging Agreements entered into respect of currency risks);

Issuer Liquidity Standby Account means the means the reserve account to be opened, if required, in the name of the Issuer and held at the applicable Liquidity Facility Provider in respect of whom the Standby Drawing has been made or, if such Liquidity Facility Provider does not have the Requisite Rating, at the Account Bank;

“Issuer Payment Priorities” means the Issuer Pre-Enforcement Priority of Payments and the Issuer Post-Enforcement Priority of Payments;

“Issuer Profit Amount” means £5,000 per annum or £1,250 if paid in quarterly instalments to be retained by the Issuer in each accounting period as contemplated by regulations 4(3) and 10 of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296);

“Issuer Secured Creditor Entrenched Right” means, in respect of an Issuer Secured Creditor, any modification, consent, direction or waiver in respect of an Issuer Transaction Document that would:

- (a) result in an increase in or would adversely modify such Issuer Secured Creditor’s obligations or liabilities under such Issuer Transaction Document;
- (b) have the effect of adversely changing the Issuer Payment Priorities or application thereof in respect of such Issuer Secured Creditor;
- (c) release any Issuer Security (except where such release is expressly permitted by the Issuer Deed of Charge);
- (d) alter adversely the voting entitlement of such Issuer Secured Creditor under the STID or the Conditions;
- (e) in respect of an Issuer Hedge Counterparty, constitute an Entrenched Right pursuant to the definition of Entrenched Right; or
- (f) amend this definition;

“Issuer Secured Creditors” means:

- (a) the Bondholders;
- (b) the Bond Trustee;
- (c) the Issuer Security Trustee (for itself and on behalf of the other Issuer Secured Creditors) under the Issuer Deed of Charge;
- (d) each Issuer Hedge Counterparty under its Issuer Hedging Agreement;
- (e) each Liquidity Facility Provider and the Liquidity Facility Agent under the Liquidity Facility Agreement in respect of amounts owed to each of them by the Issuer from time to time;
- (f) the Account Bank under the Account Bank Agreement;
- (g) the Principal Paying Agent, Transfer Agent, Registrar and Agent Bank under the Agency Agreement and any Calculation Agent under a Calculation Agency Agreement and any additional agents appointed by the Issuer from time to time;
- (h) the Cash Manager under the Issuer Cash Management Agreement;
- (i) the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement; and
- (j) the Registrar;

“Issuer Secured Liabilities” means all present and future obligations and liabilities (whether actual or contingent) of the Issuer to any Issuer Secured Creditor under each Issuer Transaction Document;

“Issuer Security” means the fixed and floating security granted by the Issuer to the Issuer Security Trustee pursuant to the Issuer Deed of Charge;

“Issuer Senior Debt” means any financial accommodation that is, for the purposes of the STID, to be treated as Issuer Senior Debt and includes:

- (a) the Bonds;
- (b) the liabilities under the Issuer Hedging Agreements; and
- (c) any further debt incurred in due course which ranks *pari passu* with the debt specified in (a) and (b) above;

“Issuer Subordinated Hedge Amounts” means any termination payment due or overdue to an Issuer Hedge Counterparty under any Issuer Hedging Agreement which arises as a result of the occurrence of an Event of Default (as defined in the relevant Hedging Agreement) where the relevant Issuer Hedge Counterparty is the defaulting party (as defined in the relevant Issuer Hedging Agreement) or the occurrence of an Additional Termination Event (as defined in the relevant Issuer Hedging Agreement) following the failure of the relevant Issuer Hedge Counterparty to take action in accordance with the terms of the relevant Issuer Hedging Agreement within the required period following a credit rating downgrade of such Issuer Hedge Counterparty (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the relevant Issuer Hedge Counterparty to enter into a transaction to replace an Issuer Hedging Agreement (in whole or in part) which shall be paid directly to the Issuer Hedge Counterparties and not in accordance with Issuer Post-Enforcement Priority of Payments);

“Issuer Transaction Accounts” means those bank accounts of the Issuer opened with the Account Bank in accordance with the Account Bank Agreement but excluding the Issuer Debt Service Reserve Account, each Issuer Hedge Collateral Account and the Issuer Liquidity Standby Account;

“Issuer Transaction Documents” means the Bonds, the Coupons and any Final Terms relating to the Bonds, the Bond Trust Deed (including the Conditions), the Dealership Agreement, each relevant Subscription Agreement, the Agency Agreement, the Issuer Deed of Charge, the Issuer Cash Management Agreement, the Account Bank Agreement, the Common Terms Agreement, the STID, the Master Definitions Agreement, each IBLA, the Liquidity Facility Agreement, the Issuer Hedging Agreements, the Issuer Corporate Services Agreement, the Tax Deed of Covenant, any back-to-back hedging agreement between the Issuer and HS1 and any other agreement, instrument or deed designated as such by the Issuer and the Bond Trustee;

“Joint Venture” means any joint venture entity, partnership or similar person, the ownership of or other interest in which does not require any Obligor to consolidate the results of that person with its own as a Subsidiary;

“Key Principal Project Document” means:

- (a) the Concession Agreement;
- (b) the HS1 Leases;
- (c) the Domestic Underpinning Agreement; and
- (d) the Funders Direct Agreement.

“LCR” means London & Continental Railways Limited;

“LCSP” means London & Continental Stations & Property Limited, a company incorporated under the laws of England and Wales, with registered number 03145418, and having its registered office at 3rd Floor, 183 Eversholt Street, London NW1 1AY;

“Leased Premises” means all the land and buildings demised in the HS1 Leases;

“LF Event of Default” means any of the following events in relation to a Borrower (the **“Affected Borrower”**), namely:

- (a) an Affected Borrower fails to pay any sum due from it under Liquidity Facility Agreement or any of the LF Fee Letters at the time, in the currency and in the manner specified therein unless payment is made within five (5) Business Days;
- (b) an Insolvency Event occurs in respect of the Affected Borrower (other than the appointment of an administrative receiver under the HS1 Security Documents or the Issuer Deed of Charge);
- (c) in respect of HS1, the delivery of a Loan Acceleration Notice or, in respect of the Issuer, the delivery of a Bond Enforcement Notice;
- (d) at any time it is or becomes unlawful for the Affected Borrower to perform or comply with any or all of its obligations under the Liquidity Facility Agreement or any of the obligations of the Affected Borrower under the Liquidity Facility Agreement are not or cease to be legal, valid, binding and enforceable;
- (e) the Affected Borrower breaches a representation under the Liquidity Facility Agreement which (a) if capable of remedy, is not remedied within twenty (20) Business Days and (b) is likely to materially and adversely affect the ability or obligation of the Affected Borrower to make payments to the Liquidity Facility Providers under the Liquidity Facility Agreement;
- (f) the Affected Borrower breaches a covenant under the Liquidity Facility Agreement which (a) if capable of remedy, is not remedied within twenty (20) Business Days and (b) is likely to materially and adversely affect the ability or obligation of the Affected Borrower to make payments to the Liquidity Facility Providers under the Liquidity Facility Agreement; or

- (g) the Affected Borrower fails to duly perform or comply with any material obligation, condition or provision other than those in relation to payment under the Liquidity Facility Agreement and such failure continues for twenty one (21) days after a Liquidity Facility Provider has given notice of such failure to perform or comply to the Affected Borrower requiring remedy, or, if earlier, the date on which the Affected Borrower becomes aware of the same;

“LF Fee Letter” means (for so long as any amounts remain payable thereunder) any letter entered into in connection with the Liquidity Facility Agreement between, amongst others, a Borrower and one or more Liquidity Facility Providers setting out the amount of margin and/or certain fees payable by the Borrowers pursuant to that agreement;

“LF Interest Payment Date” means:

- (a) in respect of a Drawing by HS1, a Payment Date in respect of an Authorised Credit Facility (other than the Liquidity Facility Agreement) in respect of which HS1 is a borrower;
- (b) in respect of a Drawing by or on behalf of the Issuer, an Interest Payment Date; or
- (c) in respect of a Drawing by the PP Note Issuer, a Payment Date in respect of any PP Note;

“LF Notice of Drawing” means a notice in the specified form served on the Liquidity Facility Agent Provider by a LF Borrower;

“Liabilities” means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceedings or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges including, in each case, any related costs, fines, penalties or interest (if any) but excluding any Excluded Tax)) and legal fees and properly incurred expenses on a full indemnity basis;

“Liquidity Drawing” means a Liquidity Loan Drawing or a Standby Drawing (as applicable);

“Liquidity Facility” means a liquidity facility made available under a Liquidity Facility Agreement;

“Liquidity Facility Agent” means Lloyds TSB Bank plc or any successor agent appointed pursuant to the Liquidity Facility Agreement;

“Liquidity Facility Amount” means, at any time, the aggregate of the Available Commitments at that time;

“Liquidity Facility Drawdown Date” means the date of an advance of a Liquidity Drawing;

“Liquidity Interest Payment Date” means the LF Interest Payment Date next following the relevant Liquidity Facility Drawdown Date;

“Liquidity Loan Drawing” means, unless otherwise stated in the Liquidity Facility Agreement, the principal amount of each borrowing under the Liquidity Facility Agreement which is not a Standby Drawing or the principal amount outstanding of that borrowing;

“Liquidity Required Amount” means, in respect of HS1, HSRF and the Issuer, an amount equal to the respective projected interest and commitment commission payments and payments of principal that are part of the scheduled amortisation (including any final payment on a Final Maturity Date) (excluding, in each case, payments under the WC Facility) and net payments (other than accretion payments under index linked Hedging Agreements and final payments under any cross-currency Hedging Agreements) under the Hedging Agreements to which each is a party for the following 12 months (calculated on a rolling basis on each calculation date);

Liquidity Standby Account means the Obligor Liquidity Standby Accounts and the Issuer Liquidity Standby Accounts;

“Liquidity Standby Account Drawing” means, in relation to a Liquidity Loan Drawing, a withdrawal of sums standing to the credit of the Liquidity Standby Account funded by way of Standby Drawing, the amount of such withdrawal to be equal to the amount of that Liquidity Loan Drawing multiplied by the proportion that the Available Standby Amount bears to the aggregate of the Available Standby Amount and the Liquidity Facility Amount (including any Liquidity Facility Amount under any substitute liquidity facility agreement);

“Loan Acceleration Notice” means a notice delivered by the HS1 Security Trustee pursuant to the STID by which the HS1 Security Trustee declares that some or all HS1 Secured Liabilities shall be accelerated;

“Loan Enforcement Notice” means a notice delivered by the HS1 Security Trustee in accordance with the STID by which the HS1 Security Trustee declares that the HS1 Security has become enforceable;

“LSER” means London and Southeastern Railways Limited;

“LSER Track Access Agreement” means the track access agreement between HS1 and LSER dated 14 August 2009;

“Majority Senior Term Lenders” means an Original Initial ACF Lender (or any bank, financial institution, trust fund, or other entity which has become a Party as an Original Initial ACF Lender in accordance with the terms of the Initial Authorised Credit Facilities), whose Commitments aggregate 66 2/3% or more of the Total Commitments under the Initial Authorised Credit Facilities (excluding the WC Facilities) (or, if the Commitments under the Initial Authorised Credit Facilities Agreement (excluding the WC Facilities) have been reduced to zero, aggregated 66 2/3% or more of the Total Commitments under the Initial Authorised Credit Facilities Agreement (excluding the WC Facilities) immediately prior to that reduction), or any equivalent definition in any Authorised Credit Facility (excluding, for the avoidance of doubt, the definition of “Required Holders” in the Initial PP Note Purchase Agreement and any equivalent definition in any other PP Note Purchase Agreement);

“Make-Whole Amount” means any premium payable on redemption of any HS1 Senior Debt or Issuer Senior Debt in excess of:

- (a) the principal amount outstanding of such debt; plus
- (b) accrued interest on such debt; plus
- (c) any final payment in respect of accretions for inflation on any such debt that is index-linked;

“Material Adverse Effect” means an effect which is materially adverse to:

- (a) the business, assets or financial condition of the Security Group, in each case, taken as a whole; or
- (b) the ability of the Obligors to perform their payment obligations under the Finance Documents and/or to comply with the financial covenants specified paragraph (b) of the section entitled “*Summary of the Common Documents – Common Terms Agreement – Loan Events of Default*” where failure to comply would result in a Loan Event of Default ; or
- (c) subject to the Reservations, the validity, legality or enforceability of any Finance Document, the Concession Agreement, the Domestic Underpinning Agreement, the HS1 Leases, or the validity, legality, enforceability, priority, or ranking of any Security Interest granted or purporting to be granted pursuant to any of the HS1 Security Documents;

“Minimum Long Term Rating” means A- by Fitch, or A3 by Moody’s or A- by S&P or any equivalent long term rating by another Rating Agency;

“Minimum Short Term Rating” means F-1 by Fitch, or P-1 by Moody’s or A1 by S&P or any equivalent short term rating by another Rating Agency;

“Moody’s” means Moody’s Investors Services Limited or any successor to its rating business;

“Network Interface Agreement” means the operations and maintenance agreement in connection with certain interface assets between the Classic Network and High Speed 1, NRIL and the Secretary of State for Transport dated 25 May 2010;

“New Obligor” has the meaning given to it in the relevant Accession Memorandum;

“New Safekeeping Structure” or **“NSS”** means a structure where a Regulation S Global Bond which is registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Regulation S Global Bond will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg;

“New Shareholder Injections” means the aggregate amount subscribed for by any Excluded Group Entity for ordinary shares in HS1 and Investor Funding Loans but shall not include any amount applied in respect of equity cures pursuant to paragraph (q) of *“Summary of the Common Documents – Common Terms Agreement – Loan Events of Default”* ;

“Non-Base Currency” means a currency other than pounds sterling;

“notice” means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*);

“NR(HS)” means Network Rail (High Speed) Limited;

“NRIL” means Network Rail Infrastructure Limited;

“NRIL Guarantee” means the deed of guarantee and indemnity between HS1 and NRIL dated 14 May 2010 relating to the Operator Agreement;

“NR Operation and Maintenance Agreement” means the agreement entitled Operations and Maintenance Agreement dated 25 May 2010 between NRIL, HS1 and the Secretary of State;

“Obligor Debt Service Reserve Account” means any HS1 Debt Service Reserve Account, any HSRF Debt Service Reserve Account and any account designated as a debt service reserve account by an Additional Obligor;

“Obligor Liquidity Standby Account” means the HS1 Liquidity Standby Account, the HSRF Standby Account and any account designated as a liquidity standby account by an Additional Obligor;

“Obligor Operating Accounts” means the HS1 Operating Accounts, the HSRF Operating Accounts and any account designated as an operating account by an Additional Obligor;

“Offsetting Interest Rate Swap Transaction” means an interest rate swap transaction entered into between HS1 and a Hedge Counterparty on the Initial Issue Date which is governed by a Super Senior HS1 Hedging Agreement, and pursuant to which, where HS1 receives an amount under a corresponding Super Senior Interest Rate Swap Transaction on a particular basis, it pays such amount to the relevant Hedge Counterparty under the interest rate swap transaction on same basis;

“Ongoing Facility Fee” means in respect of each IBLA, the ongoing facility fee payable by HS1 pursuant to the relevant IBLA and subject to any rebate under the relevant IBLA;

“Operator Agreement” means the operator agreement dated 27 June 2002 as amended and restated on 14 May 2010 between NR(HS) and HS1 pursuant to which NR(HS) provides certain operating, maintenance and renewals services in relation to HS1;

“Operator Interface Agreement Supplemental Agreement” means the supplemental agreement to the Operations Interface Agreement (of 27 June 2002 as amended and restated on 6 November 2002, originally between the Union Railways (South) Limited, Union Railways (North) Limited, CTRL (UK) Limited, the Secretary of State, Network Rail and LCR (the **“Operations Interface Agreement”**)) and to the Station Concession Agreement in respect of St Pancras International between the Secretary of State for Transport, HS1, Network Rail, NRIL, LCR and LCSP dated 14 May 2010;

“Operator Security Agreement” means the security assignment between HS1 and Network Rail dated 14 May 2010 pursuant to which HS1 has undertaken to pay and discharge all amounts payable or owing by HS1 to Network Rail under the Operator Agreement in respect of OMRC (as defined in the LSER FTAA);

“Ordinary Resolution” means a resolution relating to an Ordinary Voting Matter;

Ordinary STID Resolution means a resolution required to be passed in respect of an Ordinary Voting Matter;

“Ordinary Voting Matters” are matters which are not Discretion Matters, matters which are the subject of an Enforcement Instruction Notice or Further Enforcement Instruction Notice or Extraordinary Voting Matters;

“Original Initial ACF Finance Parties” means the Original Initial ACF Lenders and the Initial ACF Agent;

“Original Initial ACF Lenders” means those parties listed as the Original Initial ACF Lenders in the Initial Authorised Credit Facilities Agreement;

“ORR” means the Office of Rail Regulation and any other additional or replacement governmental authority which may from time to time regulate any of the Obligor’s businesses;

“Other Parties” means any Dealer, the Bond Trustee, the Issuer Security Trustee, the HS1 Security Trustee, the Hedge Counterparties, the Liquidity Facility Providers, the Initial ACF Agent, the Original Initial ACF Lenders, the Agents, the Account Bank, the Issuer Corporate Services Provider or the members of the Holdco Group (other than the Issuer and the Obligor);

“Other Transaction Document” means a Transaction Document which is not a Common Document;

“Outstanding Principal Amount” means:

- (a) in respect of any Authorised Credit Facilities that are loans, the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding or committed under such Authorised Credit Facility;
- (b) in respect of each Super Senior Hedging Agreement or Pari Passu Hedging Agreement, the Equivalent Amount (representing the mark-to-market value of any transaction or transactions arising under such Super Senior Hedging Agreement or Pari Passu Hedging Agreement) of the amount (if any) that would be payable to the relevant Super Senior Hedge Counterparty or Pari Passu Hedge Counterparty if an early termination date was designated on the date referred to below in respect of the transaction or transactions arising under the relevant Super Senior Hedging Agreement or Pari Passu Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the CTA and which are closed out at such time;

- (c) in respect of any other HS1 Secured Liabilities, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

on the date on which the Qualifying HS1 Secured Creditors have been notified of a STID Voting Request, an Enforcement Instruction Notice, a Further Enforcement Instruction Notice, a Qualifying HS1 Secured Creditor Instruction Notice or a Direction Notice, as the case may be, all as most recently certified or notified to the HS1 Security Trustee, where applicable;

“Pari Passu Hedging Agreement” means any Pari Passu HS1 Hedging Agreement and/or any Pari Passu Issuer Hedging Agreement, as the context requires;

“Pari Passu Hedge Counterparty” means a Hedge Counterparty who is a party to a Pari Passu HS1 Hedging Agreement and/or a Pari Passu Issuer Hedging Agreement;

“Pari Passu HS1 Hedging Agreement” means an HS1 Hedging Agreement under which the obligations of HS1 rank *pari passu* with HS1’s obligations under the other Authorised Credit Facilities, the WC Facility, the PP Notes and each IBLA;

“Pari Passu HS1 Hedge Counterparty” means a Hedge Counterparty who is party to a *Pari Passu* HS1 Hedging Agreement from time to time;

“Pari Passu Issuer Hedging Agreement” means an Issuer Hedging Agreement under which the obligations of the Issuer rank *pari passu* with the Issuer’s obligations under the Bonds;

“Pari Passu Issuer Hedge Counterparty” means a Hedge Counterparty who is party to a *Pari Passu* Issuer Hedging Agreement from time to time;

“Pari Passu Issuer Hedging Transaction” means an Issuer Hedging Transaction arising under a Pari Passu Issuer Hedging Agreement;

“Participating Qualifying HS1 Secured Creditors” means the Qualifying HS1 Secured Creditors which participate in a vote on any STID Proposal or other matter pursuant to the STID;

“Party” means, in relation to a Finance Document or Issuer Transaction Document, a party to such Finance Document or Issuer Transaction Document, as the case may be;

“Payment Date” means, in respect of an Authorised Credit Facility, each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under such Authorised Credit Facility;

“Permitted Acquisition” means:

- (a) an acquisition by a member of the Security Group of an asset sold, leased, transferred or otherwise disposed of by a member of the Holdco Group in circumstances constituting a Permitted Disposal;
- (b) an acquisition of shares or securities pursuant to a Permitted Share Issue or in respect of a Permitted Joint Venture;
- (c) an acquisition of securities which are Cash Equivalent Investments so long as those Cash Equivalent Investments become subject to the HS1 Security Documents as soon as is reasonably practicable thereafter;
- (d) an acquisition or incorporation by a member of the Security Group of a company in order to own a business, undertaking or assets and/or to employ employees, but only if:

- (i) such acquisition or incorporation is financed with cashflow available for Restricted Payments, from New Shareholder Injections and/or Additional Financial Indebtedness;
 - (ii) the shares in any such company (where applicable) are owned by an Obligor, a Security Interest over the shares and assets of that company, in substantially the same form as the Security Interests created pursuant to the HS1 Security Documents at the Initial Issue Date, is created in favour of the HS1 Security Trustee within 30 days of the date of its acquisition or incorporation;
 - (iii) such business, undertaking or assets and/or the employment of such employees is or are to be used in connection with the Permitted Business; and
 - (iv) such acquired or incorporated company shall accede to the CTA and the STID as an Obligor;
- (e) the incorporation of a company or the acquisition of a newly incorporated shelf company by a member of the Security Group (other than Holdco) which on incorporation becomes a member of the Security Group, but only if:
- (i) that company is incorporated in England and Wales with limited liability;
 - (ii) the shares in the company are owned by an Obligor, subject to the Reservations, a Security Interest over the shares and assets of that company, in form and substance satisfactory to the HS1 Security Trustee (acting reasonably), is created in favour of the HS1 Secured Creditors within 30 days of the date of its incorporation;
 - (iii) in the case of an acquisition of a newly incorporated shelf company, the shares in that shelf company are fully paid and the consideration for the acquisition is less than £1,000; and
 - (iv) such acquisition or incorporation is in connection with the Permitted Business;
- (f) the acquisition of any HS1 Senior Debt pursuant to any Debt Purchase Transaction subject to the terms of the CTA and the STID; and
- (g) an acquisition or incorporation by a member of the Holdco Group of a company in order to own a business, undertaking or assets and/or to employ employees where such acquisition or incorporation is financed only with cashflow available for Restricted Payments and/or from New Shareholder Injections, and where:
- (i) such acquired or incorporated company shall not be required to accede to the CTA or the STID;
 - (ii) such acquired or incorporated company shall not be a member of the Security Group; and
 - (iii) if the shares in any such company are owned by a member of the Holdco Group, a Security Interest over the shares of that company, in substantially the same form as the Security Interests created pursuant to the HS1 Security Documents at the Initial Issue Date, is created in favour of the HS1 Security Trustee within 30 days of the date of its acquisition or incorporation;

but provided that no Security Interest shall be granted in respect of the assets of such company;

“Permitted Business” means the business of the Obligors being:

- (a) being the concessionaire under the Concession Agreement, operating, maintaining, repairing and upgrading the HS1 Rail Link and the provision of facilities for those activities and/or connected therewith (including, without limitation, retail, car parks and advertising); and
- (b) the provision of consultancy services in respect of the owning and/or operating of track concessions (including, without limitation, the maintenance and upgrading thereof) in any jurisdiction;

provided that the activities set out in paragraph (a) shall constitute the principal business carried on by the Obligors;

“Permitted Debt Purchase Party” means Helix Topco, each of its Subsidiaries, any trust of which Helix Topco or any of its Subsidiaries is a trustee, any partnership of which Helix Topco or any of its Subsidiaries is a partner and any trust, fund or other entity which is managed by, or is under the control of, Helix Topco or any of its Subsidiaries;

“Permitted Disposal” means any sale, lease, licence, transfer or other disposal which, except in the case of paragraph (c), is on arm's length terms:

- (a) in the ordinary course of business of HS1 for bona fide commercial purposes in accordance with the requirements of the Concession Agreement;
- (b) of trading stock or cash made by any member of the Security Group in the ordinary course of business of the disposing entity;
- (c) of any asset by a member of the Security Group (the **“Disposing Company”**) to a member of the Holdco Group (the **“Acquiring Company”**), but only if:
 - (i) the Disposing Company is an Obligor, the Acquiring Company is or becomes an Obligor within five Business Days of such disposal;
 - (ii) where the Disposing Company had given a Security Interest over the asset, the Acquiring Company gives an equivalent Security Interest over that asset; and
 - (iii) the Disposing Company is a Guarantor, the Acquiring Company is or becomes a Guarantor within five Business Days of such disposal guaranteeing at all times an amount not less than that guaranteed by the Disposing Company;
- (d) of assets in exchange for other assets for use in the ordinary course of business for the disposing entity;
- (e) of obsolete or redundant vehicles, plant and equipment for cash used in the ordinary course of business for the disposing entity;
- (f) of Cash Equivalent Investments for cash or in exchange for other Cash Equivalent Investments;
- (g) constituted by a licence of Intellectual Property Rights permitted by the covenants in the CTA;
- (h) to a Permitted Joint Venture unless the assets the subject of such disposal are required for the business of the Obligors described in paragraph (a) of the definition of Permitted Business as at the date of such disposal, but *provided that*, if such assets are required for the Permitted Business as at the date of such disposal, the disposal of those assets shall be permitted provided that on or before the date of such disposal HS1 certifies to the HS1 Security Trustee that it is entering into or has taken appropriate steps to enter into such contract(s) with the Permitted Joint Venture and/or such other counterparties, which, in the opinion of HS1 acting

reasonably, are sufficient to ensure that the Security Group has adequate access to such assets to continue the performance of the Permitted Business;

- (i) arising as a result of any Permitted Security;
- (j) of fixed assets where the proceeds of disposal are used within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal) to purchase replacement assets in the ordinary course of business for the disposing entity;
- (k) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (l) any disposal by a member of Security Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect;
- (m) by way of the granting of easements or wayleaves over Real Property, or any part of them, in the ordinary course of business for the disposing entity;
- (n) by way of the creation of any occupational leases or licences over Real Property which are granted in the ordinary course of business of the disposing entity;
- (o) by way of the creation of occupational leases or licences over, or the outright disposal of, Real Property which is not required in the ordinary course of business for the disposing entity;
- (p) by way of the creation of a lease or licence over an asset (not being Real Property) which is granted in the ordinary course of business for the disposing entity;
- (q) arising or required pursuant to the terms of the HS1 Leases, the UKPN Agreements, the Supplemental Deed, or any other Project Document in accordance with the terms of the Financing Direct Agreements, or in respect of the assets which are the subject of the UKPN Agreements or any replacement agreements relating to those assets, including, without limitation, any re-leasing of those assets, and the HS1 Security Trustee will be authorised by the HS1 Secured Creditors and Issuer Secured Creditors to execute such additional documents and/or amendments to the Finance Documents in order to give effect to any such transaction;
- (r) where the consideration receivable (when aggregated with the consideration receivable for any other sale, lease, licence, transfer or other disposal not permitted under the preceding paragraphs) does not exceed £10,000,000 (Indexed) in any Financial Year and £15,000,000 (Indexed) in any three consecutive Financial Years;
- (s) any other payment or disposal approved or consented to by the HS1 Security Trustee in accordance with the STID; and
- (t) the disposal of any HS1 Senior Debt acquired pursuant to a Debt Purchase Transaction subject to the terms of the CTA and the STID;

“Permitted Distribution Period” means the period on and from the later of:

- (a) the most recent Reporting Date; and
- (b) 10 Business Days after the date of delivery of the relevant Compliance Certificate

and ending on the date falling 90 Business Days following the latest of the dates specified in (a) to (b) above;

“Permitted Financial Indebtedness” means Financial Indebtedness:

- (a) arising under the Finance Documents (including, without limitation any Bonds and PP Notes issued after the Initial Issue Date, any Liquidity Facility and any Treasury Transactions);
- (b) arising under any Investor Funding Loan, subject to the terms of the CTA and the STID;
- (c) arising under a Permitted Loan or under or in respect of a Permitted Guarantee or Permitted Joint Venture or as permitted under a Treasury Transaction;
- (d) of any Obligor owed or incurred in relation to any Permitted Joint Venture where the outstanding principal amount does in aggregate not exceed £10,000,000;
- (e) of any person acquired by a member of the Holdco Group after the Establishment Date which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or having its maturity date extended in contemplation of, or since, that acquisition, and outstanding only for a period of 60 days following the date of acquisition;
- (f) of any person acquired by a member of the Holdco Group after the Establishment Date as a result of a Permitted Acquisition pursuant to limb (g) of the definition of that term;
- (g) under finance or capital leases of vehicles, plant, equipment or computers, provided that the aggregate capital value of all such items so leased under outstanding leases by members of the Security Group does not exceed £22,500,000 (Indexed) (or its equivalent in other currencies) at any time;
- (h) under any finance or capital lease entered into in accordance with the terms of the UKPN Agreements or any replacement arrangements entered into in respect of the assets which are the subject of the UKPN Agreements;
- (i) under the Operator Agreement, the Network Interface Agreement or the Operator Interface Agreement Supplemental Agreement;
- (j) not permitted by the preceding paragraphs and the outstanding principal amount of which does not exceed £27,000,000 (Indexed) (or its equivalent) in aggregate for the Security Group at any time;
- (k) any Additional Financial Indebtedness, subject to the terms of the CTA and the STID;
- (l) until the Initial Issue Date, the Existing Indebtedness; and
- (m) any other financial indebtedness approved or consented to by the HS1 Security Trustee in accordance with the STID;

“Permitted Guarantee” means:

- (a) the endorsement of negotiable instruments in the ordinary course of trade;
- (b) any performance or similar bond, guarantee or indemnity or undertaking guaranteeing performance by a member of the Security Group under any contract entered into in the ordinary course of business (including any entered into in undertaking the Permitted Business);

- (c) any guarantee of a Permitted Joint Venture;
- (d) any guarantee, indemnity or other support of a similar nature granted pursuant to the terms of the Project Documents;
- (e) any guarantee permitted as Financial Indebtedness;
- (f) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (b) of the definition of Permitted Security;
- (g) any guarantee granted under the Finance Documents;
- (h) any guarantee given by a member of the Holdco Group in relation to an Obligor's obligations provided that if the relevant member of the Holdco Group granting the guarantee is not an Obligor it has unconditionally and irrevocably waived its rights of subrogation and to require contribution from such Obligor thereunder;
- (i) any guarantee by an Obligor of leasehold rental obligations of an Obligor (not being in respect of Financial Indebtedness which is not Permitted Financial Indebtedness);
- (j) any indemnity given in the ordinary course of an acquisition or disposal which is a Permitted Acquisition or Permitted Disposal which indemnity is in customary form and subject to customary limitations;
- (k) any other guarantee approved or consented to by the HS1 Security Trustee in accordance with the STID; and
- (l) any guarantee not otherwise permitted under the preceding paragraphs provided that the aggregate maximum potential liability of members of the Holdco Group thereunder (when aggregated with the amount of loans outstanding under paragraph (h) of the definition of Permitted Loan) does not exceed (without double counting) £5,000,000 (Indexed) (or its equivalent) at any time;

“Permitted Hedge Termination” means the termination of a Hedging Agreement permitted in accordance with the provisions of the Hedging Policy;

“Permitted Joint Venture” means:

- (a) the entry into, investment in or acquisition (or agreement to acquire) of any shares stocks, securities or other interest in, any Joint Venture by any Obligor; or
- (b) the transferring of any assets (or agreement to transfer assets) to a Joint Venture by any Obligor; or
- (c) any loan made to or guarantee, indemnity or Security Interest given in respect of the obligations of a Joint Venture by any Obligor; or
- (d) the maintenance of the solvency of or provision of working capital to any Joint Venture by any Obligor;

(or any agreement to do any of the above), provided that:

- (i) any initial aggregate investment by the Security Group pursuant to any and all such transactions in relation to any one Joint Venture (or any series of Joint Ventures connected by common ownership (direct or indirect) and purpose) is not greater than £20,000,000 (Indexed) or its equivalent in other currencies or such transactions are financed with cashflow available for Restricted Payments and/or from New Shareholder Injections: and

(ii) provided that such Joint Venture is located in the United Kingdom;

and excluding any Permitted Acquisition, Permitted Disposal or Permitted Loan;

“Permitted Loan” means:

- (a) any trade credit extended by any member of the Security Group to its customers, tenants or licensees, on normal commercial terms and in the ordinary course of trade;
- (b) Financial Indebtedness which is referred to in the definition of, or otherwise constitutes, Permitted Financial Indebtedness under paragraphs (b) or (c) thereof;
- (c) a loan made to a Permitted Joint Venture;
- (d) a loan made by an Obligor to another Obligor or made by a member of the Holdco Group which is not an Obligor to another member of the Security Group;
- (e) any loan made by an Obligor to a member of the Security Group which is not an Obligor so long as the aggregate amount of the Financial Indebtedness under any such loans does not exceed £10,000,000 (Indexed) (or its equivalent) at any time;
- (f) a loan made by a member of the Security Group to an employee or director of any member of the Security Group if the amount of that loan (when aggregated with the amount of all loans to employees and directors by members of the Security Group) does not exceed £4,500,000 (Indexed) (or its equivalent) at any time;
- (g) any loan made by a member of the Holdco Group to an Excluded Group Entity in accordance with the Restricted Payments Condition;
- (h) any loan (other than a loan made by a member of the Holdco Group to another member of the Holdco Group) so long as the aggregate amount of the Financial Indebtedness under any such loans (when aggregated with the amount of guarantees outstanding under paragraph (l) of the definition of Permitted Guarantee) does not exceed £27,000,000 (Indexed) (or its equivalent) at any time but excluding any such loans which are funded by cashflow available for Restricted Payments or New Shareholder Injections;
- (i) subject to the terms of STID, any loan made for the purposes of enabling (indirectly or directly) an Obligor to meet its payment obligations under the Finance Documents or the Project Documents; and
- (j) any other loans or grant of credit approved or consented to by the HS1 Security Trustee in accordance with the STID,

provided that in the case of paragraphs (c), (e) (f) and (h) above to the extent required by the STID, the creditor and (if the debtor is a member of the Security Group) the debtor of such Financial Indebtedness are or become party to the STID as a new Obligor;

“Permitted Payment” means any payment described in paragraphs (c)(i) to (c)(v) of the exclusions to the definition of Restricted Payment;

“Permitted Security” means:

- (a) any Security Interest or Quasi-Security arising by operation of law and in the ordinary course of trading and not as a result of any default or omission by any member of the Holdco Group;
- (b) any netting or set-off arrangement entered into by any member of the Holdco Group with an Acceptable Bank in the ordinary course of its banking arrangements for the purpose of

netting debit and credit balances of members of the Holdco Group but only so long as (i) such arrangement does not permit credit balances of Obligors to be netted or set off against debit balances of members of the Holdco Group which are not Obligors and (ii) such arrangement does not give rise to other Security Interests over the assets of Obligors in support of liabilities of members of the Holdco Group which are not Obligors (except in the case of (i) and (ii), to the extent such netting, set off or Security Interest relates to or is granted in support of, a loan permitted pursuant to paragraph (e) of the definition of Permitted Loan);

- (c) any Security Interest or Quasi-Security over or affecting any asset acquired by a member of the Security Group after the Establishment Date if:
 - (i) the Security Interest or Quasi-Security was not created in contemplation of the acquisition of that asset by a member of the Security Group;
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by a member of the Security Group; and
 - (iii) the Security Interest or Quasi-Security is removed or discharged within 60 days of the date of acquisition of such asset;
- (d) any Security Interest or Quasi-Security over or affecting any asset of any company which becomes a member of the Security Group after the Establishment Date, where the Security Interest or Quasi-Security is created prior to the date on which that company becomes a member of the Security Group if:
 - (i) the Security Interest or Quasi-Security was not created in contemplation of the acquisition of that company;
 - (ii) the principal amount secured has not increased in contemplation of or since the acquisition of that company; and
 - (iii) the Security Interest or Quasi-Security is removed or discharged within 60 days of that company becoming a member of the Security Group;
- (e) any Security Interest or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Security Group in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by any member of the Security Group;
- (f) any Quasi-Security arising as a result of a disposal which is a Permitted Disposal;
- (g) any Security Interest or Quasi-Security arising as a consequence of any finance or capital lease permitted pursuant to paragraph (e) of the definition of Permitted Financial Indebtedness;
- (h) the Security Interests created pursuant to the HS1 Security Documents;
- (i) any netting or set-off arrangement under an ISDA master agreement or schedule thereto entered into by any member of the Holdco Group under a Treasury Transaction for the purposes of determining its obligations by reference to its net exposure under that agreement (and for the avoidance of doubt, not as a credit support provider under any such agreement);
- (j) any netting or set-off arrangement or Quasi-Security constituting a Permitted Transaction or arising or required pursuant to the terms of the Concession Agreement or the UKPN Agreements;

- (k) the Operator Security Agreement and any Security Interest or Quasi-Security over the Escrow Accounts pursuant to the Renewals Escrow Account Security Agreement or otherwise, the Network Interface Agreement or the HS1 Lease Deed of Charge;
- (l) any Security Interest or Quasi-Security arising in the ordinary course of trade over documents of title or goods as part of a letter of credit transaction or in respect of other Permitted Financial Indebtedness;
- (m) any Security Interest or Quasi-Security over bank accounts (other than a mandatory prepayment account or a holding account) of a member of the Security Group in favour of the account holding bank with whom that member of the Security Group maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (n) any Security Interest or Quasi-Security approved or consented to by the HS1 Security Trustee in accordance with the STID;
- (o) any Security Interest or Quasi-Security arising under the rent security deposit deed dated 23 June 2008 in respect of an underlying lease dated 10 January 2003 and any replacement thereto or any similar arrangement in respect of any other real property, provided that such replacement is on market terms in respect of value of the Security Interest or Quasi-Security required in relation thereto;
- (p) any Security Interest or Quasi-Security arising under the rent security deposit deed dated 23 June 2008 in respect of an underlying lease dated 23 June 2008 and any replacement thereto or any similar arrangement in respect of any other real property, provided that such replacement is on market terms in respect of the value of the Security Interest or Quasi-Security required in relation thereto;
- (q) any Security Interest or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security Interest given by any member of the Holdco Group other than any permitted under paragraphs (a) to (p) above) does not exceed £9,000,000 (Indexed) (or its equivalent in other currencies) at any time;
- (r) any security interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the Holdco Group in good faith and with a reasonable prospect of success;
- (s) any security interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the Holdco Group by appropriate procedures and with a reasonable prospect of success; and
- (t) until the Initial Issue Date, the Existing Security Interests,

but, in each case, excluding any such Security Interest or Quasi-Security over any Real Property;

“Permitted Share Issue” means:

- (a) an issue of shares by Holdco to its immediate Holding Company or to the Sponsors or any person directly or indirectly owned or controlled by the Sponsors (including, for the avoidance of doubt, any person holding shares for the purposes of any applicable pension benefits legislation), paid for in full in cash upon issue and which by their terms are not redeemable;

- (b) any issue of shares within the Holdco Group provided that other than in respect of shares issued by Holdco, such shares are subject to Security Interests under the HS1 Security Agreement;
- (c) any issue of shares by way of a Restricted Payment so long as at the time of issue the Restricted Payment Condition is satisfied; and
- (d) any other issue of shares approved or consented to by the HS1 Security Trustee;

“Permitted Transaction” means:

- (a) any Permitted Disposal, Financial Indebtedness incurred, guarantee, indemnity or Security Interest or Quasi-Security given, or other transaction arising, under and in accordance with the Finance Documents;
- (b) the solvent liquidation or reorganisation of any member of the Holdco Group which is not an Obligor (other than Holdco) so long as any payments or assets distributed as a result of such liquidation or reorganisation are distributed to other members of the Holdco Group; or
- (c) any other transaction approved or consented to by the HS1 Security Trustee in accordance with the STID;

“Potential Bond Event of Default” means any event which, with the lapse of time and/or the giving of any notice and/or the making of any determination (in each case where the lapse of time and/or giving of notice and/or determination is provided for in the terms of such Bond Event of Default, and assuming no intervening remedy), will become a Bond Event of Default;

“Potential Loan Event of Default” means any event which, with the lapse of time and/or the giving of any notice and/or the making of any determination (in each case where the lapse of time and/or giving of notice and/or determination is provided for in the terms of such Loan Event of Default, and assuming no intervening remedy), will become a Loan Event of Default;

“PP Note Documents” means each PP Note Purchase Agreement, the PP Notes and each PP Note SCR Agreement;

“PP Note Purchase Agreement” means the Initial PP Note Purchase Agreement and each other note purchase agreement pursuant to which HSRF issues PP Notes from time to time;

“PP Note Secured Creditor Representative” means the Initial PP Note Secured Creditor Representative and any other person who is appointed as Secured Creditor Representative for PP Noteholders and authorised to act as such under a PP Note SCR Agreement;

“PP Note SCR Agreement” means the Initial PP Note SCR Agreement and each other secured creditor representative agency deed authorising a party to act, and be named in the relevant Accession Memorandum, as Secured Creditor Representative for the relevant PP Noteholders;

“Principal Project Document” means:

- (a) the Concession Agreement;
- (b) each UKPN Agreement;
- (c) the HS1 Leases;
- (d) the Operator Agreement;
- (e) the Domestic Underpinning Agreement;

- (f) the Funders Direct Agreement;
- (g) the Financiers' Operator Agreement Direct Agreement; and
- (h) the UKPN Parties Direct Agreement.

“Project Document” means:

- (a) each Station Concession Agreement;
- (b) each Track Access Agreement;
- (c) the Concession Agreement;
- (d) each Direct Agreement;
- (e) each UKPN Agreement;
- (f) each Station Access Agreement;
- (g) the HS1 Leases;
- (h) the Ebbsfleet Car Park Lease;
- (i) the Operator Agreement;
- (j) the NRIL Guarantee;
- (k) the Network Interface Agreement;
- (l) the Operator Interface Agreement Supplemental Agreement;
- (m) the Operator Security Agreement;
- (n) the Domestic Underpinning Agreement;
- (o) any other material contract agreed between HS1 (acting reasonably) and the HS1 Security Trustee to be a Project Document; and
- (p) any other document that amends, replaces or supplements any of the foregoing;

“Projected Capital Expenditure” means, as at the relevant Test Date, any Capital Expenditure to be incurred during the relevant projected Test Period, but shall not include any amount:

- (a) to the extent that it has previously been taken into account for the purposes of making a calculation hereunder;
- (b) in respect of Capital Expenditure funded by way of a drawing from the balance standing to the Renewals Escrow Account or any other Escrow Account to which sums are credited to fund Capital Expenditure; or
- (c) to the extent that it is funded by way of a grant or other financial accommodation provided by any government entity or organisation (including, without limitation, Network Rail);

“Projected Change in Consolidated Working Capital” means in respect of a Test Date, the difference between:

- (a) Consolidated Working Capital on that Test Date;

(b) Consolidated Working Capital on the Test Date 12 months following such Test Date,

and for the purpose of the definition of “**Projected Consolidated Cashflow**”, if (b) exceeds (a), the difference shall be treated as a positive figure and, if (a) exceeds (b), the difference shall be treated as a negative figure;

“**Projected Consolidated Cashflow**” for any Test Period means Projected Consolidated EBITDA for such period, adjusted as set out below on the basis of figures available to Security Group and consistent with the budgets, forecasts and other projections provided to the HS1 Security Trustee, the Issuer Security Trustee and the Principal Paying Agents:

- (a) **plus** the amount of any rebate or credit in respect of any tax on profits, gains or income receivable in cash by any member of Security Group during such period;
- (b) **plus** the amount (net of any applicable withholding tax) of any dividends or other profit distributions receivable in cash by any member of Security Group during such period from any entity which is not itself a member of Security Group;
- (c) **plus** any interest credited to, or received by, any member of the Security Group pursuant to any balance on account;
- (d) **minus** all Projected Capital Expenditure incurred by Security Group during such period (to the extent not taken into account in calculating Projected Consolidated EBITDA for such period);
- (e) **minus** all amounts of tax on profits, gains or income forecast to fall due for payment during such period and **minus** the amount of any withholding tax to be withheld from any amount payable to Security Group which has been taken into account in calculating Projected Consolidated EBITDA for such period;
- (f) **minus** any increase or **plus** any Projected Change in Consolidated Working Capital during such Test Period;
- (g) **minus** all non-cash credits and plus all non-cash debits and other non-cash charges included in establishing Projected Consolidated EBITDA for such period (to the extent not included in calculating Projected Change in Consolidated Working Capital as at the end of such Test Period); and
- (h) **plus** any positive and **minus** any negative extraordinary or exceptional items which are paid or which fall due for payment by Security Group in cash during such period to the extent not already taken into account in calculating Projected Consolidated EBITDA for such period (but **excluding** any gain or any loss on any HS1 Senior Debt owned and sold (or otherwise disposed of) by an Obligor during such period other than any gain or loss on HS1 Senior Debt which has been owned by an Obligor for a period in excess of 12 months),

and **provided that** for the purposes of calculating such budgets, forecasts and other projections:

- (i) the forecast rate of inflation will be no more than the rate determined:
 - (A) in respect of the first 5 years (or to the extent available) after the relevant date on which the Projected Consolidated Cashflow is stated to be calculated, from rate published by The Office of Budget Responsibility (or any successor or equivalent body) for each such year; and
 - (B) for any period thereafter:
 - (I) if the last day of the relevant Test Period is on or before the later of
(1) the date occurring ten years prior to the Final Maturity Date and

(2) 31 December 2028, by an average rate derived by averaging the rate published by the Bank of England for 10 year and 20 year inflation zero coupon yields published by the Bank of England (or any equivalent published data that most closely represents a break even inflation rate) or such other recognised source as may be agreed by HS1, and the HS1 Security Trustee (acting reasonably); and

(II) if the last day of the relevant Test Period is after (1) the date occurring ten years prior to the Final Maturity Date and (2) 31 December 2028, by an average rate derived by averaging (x) the rate published by The Office of Budget Responsibility (or any successor or equivalent body) for the fifth year after the year in which the relevant date on which the Projected Consolidated Cashflow is stated to be calculated and (y) the rate published by the Bank of England for 10 year inflation zero coupon yields published by the Bank of England (or any equivalent published data that most closely represents a break even inflation rate) or such other recognised source as may be agreed by HS1, the HS1 Security Trustee and the Issuer Security Trustee (acting reasonably); and

(ii) the domestic and international train pathways assumed to be utilised by TOCs are based on existing contractual terms with the TOCs adjusted for any development of train pathways reasonably foreseen by the directors of HS1 (acting reasonably) at the relevant time of calculation;

“Projected Consolidated Debt Service” for any Test Period means the amount of all scheduled payments of Interest payable in respect of the HS1 Senior Debt by HS1 during such period;

- (a) **plus** the amount of all scheduled payments of principal in respect of the HS1 Senior Debt falling due for repayment during the such period (but **excluding** the amount of principal payable on the Final Maturity Date in respect of any Authorised Credit Facility); and
- (b) **minus** the amount of all scheduled Interest and principal payable in respect of the HS1 Senior Debt by HS1 during such period to the extent such payments are payable in respect of HS1 Senior Debt owned by an Obligor at the time such payment is to be made;

“Projected Consolidated EBITDA” for any Test Period means the operating profit of Security Group for such period adjusted as set out below on the basis of figures available to Security Group and consistent with the budgets, forecasts and other projections provided to the HS1 Security Trustee, the Issuer Security Trustee and the Principal Paying Agents:

- (a) **before deducting** any depreciation or amortisation whatsoever;
- (b) **before taking into account** all extraordinary items (whether positive or negative) but **after taking into account** all exceptional items (whether positive or negative);
- (c) **before deducting** any amount of Tax on profits, gains or income payable by Security Group and any amount of any rebate or credit in respect of Tax on profits, gains or income receivable by Security Group during such period;
- (d) **before taking into account** Interest accruing as an obligation of or owed to any member of Security Group during such period;
- (e) **after adding back** (to the extent otherwise deducted) any loss against book value forecast to be incurred by Security Group on the disposal of any asset (other than the sale of trading stock) during such period;

- (f) **after deducting** (to the extent otherwise included) any gain over book value forecast to arise in favour of Security Group on the disposal of any asset (other than the sale of trading stock) during such period;
- (g) **after deducting** (to the extent not otherwise deducted) any amounts payable in respect of the leases referred to in paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness;
- (h) **excluding** any accounting entries made for mark to market amounts in respect of any Hedging Transactions; and
- (i) **without taking into account** any amounts paid into or withdrawn from any Escrow Accounts in accordance with any Project Document;

“Projected DSCR” means the ratio of Projected Consolidated Cashflow to Projected Consolidated Debt Service in respect of the relevant projected Test Period;

“Projected Test Period” means the period commencing on the relevant Test Date and ending on the Test Date falling 12 months subsequently;

“Public Procurement Rules” means the Public Contracts Regulations 2006;

“Qualifying HS1 Secured Creditor Instruction Notice” means a notice given to the HS1 Security Trustee when any Qualifying HS1 Secured Creditor is by itself or together with another Qualifying HS1 Secured Creditor(s) is or are owed Qualifying HS1 Senior Debt having an aggregate Outstanding Principal Amount of at least 20 per cent (or such other percentage as may be required pursuant to the CTA) of all Qualifying HS1 Senior Debt then outstanding, then it may instruct the HS1 Security Trustee to exercise any of the rights granted to the HS1 Security Trustee under the Common Documents;

“Qualifying HS1 Secured Creditors” means each HS1 Secured Creditor to which Qualifying HS1 Senior Debt is owed, acting through their Secured Creditor Representatives;

“Qualifying HS1 Senior Debt” means:

- (a) the principal amount outstanding under each IBLA corresponding to the Bonds;
- (b) the principal amount outstanding under the Authorised Credit Facilities (other than the Liquidity Facility Agreement, the PP Notes and the HS1 Hedging Agreements) at such time;
- (c) the principal amount outstanding under the PP Notes;
- (d) subject to the Entrenched Rights (i) in relation to any vote by the Qualifying HS1 Secured Creditors on whether to take Enforcement Action and (ii) following the taking of Enforcement Action, the principal amount outstanding under the IBLAs at such time corresponding to (A) in relation to any Hedging Transaction arising under a Pari Passu Issuer Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu Issuer Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu Issuer Hedging Agreement) and/or (B) otherwise, the mark-to-market value of any transaction or transactions arising under a Pari Passu Issuer Hedging Agreement to the extent that such value represents an amount which would be payable to the relevant Pari Passu Issuer Hedge Counterparty if an Early Termination Date (as defined in the relevant Pari Passu Issuer Hedging Agreement) was designated at such time in respect of such transaction or transactions;
- (e) subject to the Entrenched Rights (i) in relation to any vote by the Qualifying HS1 Secured Creditors on whether to take Enforcement Action and (ii) following the taking of Enforcement

Action, (A) in relation to any Hedging Transaction arising under a Pari Passu HS1 Hedging Agreement in respect of which an Early Termination Date (as defined in the relevant Pari Passu HS1 Hedging Agreement) has been designated, the amount (if any) outstanding to the relevant Pari Passu HS1 Hedge Counterparty following such termination (as calculated in accordance with the terms of the Pari Passu HS1 Hedging Agreement) and/or (B) otherwise, the mark-to-market value of any transaction or transactions arising under any Pari Passu HS1 Hedging Agreement to the extent that such value represents an amount which would be payable to the relevant HS1 Hedge Counterparty if an Early Termination Date (as defined in the relevant Pari Passu HS1 Hedging Agreement) was designated at such time in respect of such transaction or transactions; and

- (f) the principal amounts outstanding under any other secured term loan facilities which are Authorised Credit Facilities at such time ranking *pari passu* with the above (but excluding for the avoidance of doubt any Liquidity Facilities or any Hedging Transactions arising under a Super Senior HS1 Hedging Agreement or a Super Senior Issuer Hedging Agreement);

“Quasi-Security” means an arrangement or transaction described in paragraph (o) of the section entitled *“Summary of the Common Documents – Common Terms Agreement – General Covenants”*;

“Quorum Requirement” means:

- (a) in relation to an Ordinary Voting Matter, at least 20% of the entire Outstanding Principal Amount of all Qualifying HS1 Senior Debt provided that if the Quorum Requirement has not been met within the Decision Period, the Quorum Requirement shall be reduced to one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, 10% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt and the Decision Period shall be extended for a period of a further ten days from the expiry of the initial Decision Period;
- (b) in relation to an Extraordinary Voting Matter, at least 20% of the entire Outstanding Principal Amount of all Qualifying HS1 Senior Debt, provided that if the Quorum Requirement has not been met on or before the Business Day immediately preceding the last day of the Decision Period, the Quorum Requirement shall be reduced to one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, 10% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt and the Decision Period shall be extended for a period of a further ten days from the expiry of the initial Decision Period;
- (c) in relation to an Enforcement Instruction Notice and a Further Enforcement Instruction Notice, the Quorum Requirement shall be one or more Participating Qualifying HS1 Secured Creditors representing, in aggregate, at least 40% of the aggregate Outstanding Principal Amount of all Qualifying HS1 Senior Debt; and
- (d) in relation to a Direction Notice, the Quorum Requirement shall be one or more Participating Qualifying HS1 Secured Creditors;

“Ratings Confirmation” in respect of a proposed action means a confirmation by the relevant Rating Agencies mandated by the Issuer from time to time (who give such Ratings Confirmations as a part of their mandate), in respect of each Tranche of the relevant Bonds, to the effect that the then ratings on such Tranche of Bonds would not be reduced below the lower of (a) the credit ratings of such Bonds as at their Issue Date or (b) the then current credit ratings (before the proposed action);

“Real Property” means:

- (a) any freehold, leasehold or immovable property; and
- (b) any buildings, fixtures, fittings, fixed plant or machinery from time to time situated on or forming part of that freehold, leasehold or immovable property;

“Receiver” means any receiver, manager, receiver and manager or administrative receiver who (in the case of an administrative receiver) is a qualified person in accordance with the Insolvency Act 1986 and who is appointed:

- (a) by the HS1 Security Trustee under the HS1 Security Documents in respect of the whole or any part of the HS1 Security; or
- (b) by the Issuer Security Trustee under the Issuer Deed of Charge in respect of the whole or any part of the Issuer Security;

“Regulatory Direction” means, in relation to any person, a direction or requirement of any Governmental Authority with whose direction or requirements such person is accustomed to comply;

“Related Party” means any Sponsor or shareholder of a member of the Holdco Group (or in each case any nominee thereof or partner in such member of the Holdco Group) or person acting for or on behalf of any of them where it is not acting as an Unrestricted Party;

“Relevant Document” means a Finance Document to which the relevant person is a party;

“Relevant Jurisdiction” means, in relation to an Obligor:

- (a) its jurisdiction of incorporation;
- (b) any jurisdiction where any asset subject to or intended to be subject to the HS1 Security Documents to be created by it is situated;
- (c) any jurisdiction where it conducts its business; and
- (d) the jurisdiction whose laws govern the perfection of any of the HS1 Security Documents entered into by it;

“Relevant Subscription Agreement” means an agreement between, among others, the Issuer, each Obligor and any Dealer(s) for the issue by the Issuer and the subscription as principal by such Dealer(s) (or on such other basis as may be agreed between the Issuer, the Obligors and the relevant Dealer(s) at the relevant time) of any Bonds, including any agreement in the form or based on the form set out in the Dealership Agreement;

“Renewals Escrow Account” means the escrow account held in the name of HS1 established pursuant to the Concession Agreement to fund Renewals and Replacements to be made by HS1 and charged pursuant to the Renewals Escrow Account Security Agreement;

“Renewals Escrow Account Security Agreement” means the security agreement to be entered into between HS1 and the Secretary of State in respect of the Renewals Escrow Account;

“Repayment Costs” means, in respect of the repayment or prepayment of all or part of a particular HS1 Senior Debt, any make whole or redemption premium or other equivalent costs payable including any related swap termination amounts and break costs payable in connection with the repayment or prepayment of such HS1 Senior Debt;

“Repayment Gains” means, in respect of the repayment or prepayment of all or part of an Authorised Credit Facility, any gains arising from any swap terminations to the extent required to be terminated in order to maintain compliance with the Hedging Policy;

“Reporting Date” means:

- (a) in respect of each Test Date in respect of which Annual Financial Statements of the Security Group are prepared, 150 days following the relevant Test Date; and

- (b) in respect of each Test Date in respect of which Semi-Annual Financial Statements of the Security Group are prepared, 90 days following the relevant Test Date;

“Representative” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian;

“Reservations” means:

- (a) the principle that equitable remedies are remedies which may be granted or refused at the discretion of the court, the limitation of enforcement by laws relating to bankruptcy, insolvency, liquidation, reorganisation, court schemes, moratoria, administration and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under applicable limitation laws (including the Limitation Acts), the possibility that an undertaking to assume liability for or to indemnify a person against non payment of stamp duty may be void, defences of set off or counterclaim; and
- (c) any other general principles which are set out as qualifications as to matters of law in the legal opinions delivered to the HS1 Security Trustee under the CP Agreement;

“Reserved Matters” means, notwithstanding the provisions of the STID concerning modifications, consents and waivers and Entrenched Rights, every right, power, authority and discretion of, or exercisable by, each such HS1 Secured Creditor at any time:

- (a) to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Authorised Credit Facility to which it is a party as permitted pursuant to the terms of the CTA;
- (b) to make determinations of and require the making of payments due and payable to it under the provisions of the Authorised Credit Facilities to which it is a party as permitted by the terms of the CTA;
- (c) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the terms of the CTA, the STID and the other Finance Documents;
- (d) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;
- (e) to assign its rights or transfer any of its rights and obligations under any Authorised Credit Facility to which it is a party subject always to the limitations on assignment under the STID; and
- (f) in the case of each Hedge Counterparty, (i) to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination or to terminate the relevant Hedging Agreement in part and amend the terms of the Hedging Agreement to reflect such partial termination or (ii) to exercise rights permitted to be exercised by it under a Hedging Agreement;

“Restricted Payment” means:

- (a) any payment (by way of loan or repayment of any loan or otherwise) (in cash or in kind) of a dividend by an Obligor to an Excluded Group Entity;
- (b) any payment or repayment of interest, principal of other charges under any Investor Funding Loan; or
- (c) any loan made by a member of the Security Group to an Excluded Group Entity;

other than the following:

- (i) subject to the terms of the STID, any payment made by a member of the Security Group to HS1 or the Issuer to enable HS1 or the Issuer to make payments of any principal, interest, fees or other charges due under the Finance Documents or the Project Documents;
 - (ii) payments made by one Obligor to another Obligor or by an Obligor to an Excluded Group Entity in consideration for the surrender of Group Relief;
 - (iii) payments into the Escrow Accounts;
 - (iv) any other payment not otherwise permitted under the preceding paragraphs up to £20,000,000 (Indexed) in aggregate per Financial Year in respect of management fees, payments to CTRL(UK) in respect of staff costs and payments to captive insurance company in respect of insurance premia; and
 - (v) any other payment consented to or approved by the HS1 Security Trustee in accordance with the STID or expressly contemplated by Finance Documents; and
- (d) any redemption, purchase, defeasance, retirement or repayment in respect of any of its shares or share capital (to the extent that any of the foregoing involve the payment of cash to an Excluded Group Entity);

“Restricted Payment Condition” means:

- (a) no Loan Event of Default or Potential Loan Event of Default is subsisting or would result from making any proposed Restricted Payment;
- (b) no Level 2 Trigger Event is subsisting or would result from making any proposed Restricted Payment; and
- (c) a Compliance Certificate has been issued within the immediately preceding 90 days from the proposed date of payment of any proposed Restricted Payment;

“Revenue Transaction” means an inflation-linked swap transaction entered into between HS1 and a Hedge Counterparty under a Hedging Agreement pursuant to which HS1 will pay a floating amount linked to RPI and HS1 will receive a fixed amount and which (i) will rank senior in priority to the HS1 Senior Debt, (ii) will have a scheduled maturity on or before 31 December 2040 and (iii) will not be subject to rights of "Optional Early Termination" or "Mandatory Early Termination" (as defined in the 2006 ISDA Definitions or any replacement thereof);

“Rollover Loan” means one or more WC Facility Loan:

- (a) made or to be made to HS1 on the same day that a maturing WC Facility Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing WC Facility Loan; and
- (c) made or to be made to the Borrower for the purpose of refinancing that maturing WC Facility Loan;

“Section 2” means that part of High Speed 1 between Southfleet and St Pancras International;

“Secured Creditors” means the HS1 Secured Creditors and the Issuer Secured Creditors;

“Secured Creditor Representative” means the representative of a HS1 Secured Creditor appointed in accordance with the STID;

“Security Interest” means:

- (a) any mortgage, pledge, lien, charge, assignment or hypothecation or other encumbrance securing any obligation of any person;
- (b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or
- (c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect;

“Semi-Annual Financial Statements” means consolidated, unaudited Semi-Annual Financial Statements of the Security Group together, prepared as if they constituted a statutory group for consolidation purposes, for the first financial half-year in each Financial Year, within 90 days after the end of such financial half-year;

“Senior Hedged Debt” means, without double counting, the HS1 Senior Debt and the Issuer Senior Debt (disregarding for these purposes the notional amount under any Hedging Agreement and the commitments or amounts outstanding under any Liquidity Facility Agreement and the WC Facility and the amounts outstanding under each IBLA (other than floating rate loans under each IBLA) corresponding to amounts outstanding under the Bonds);

“Specified Time” means 11.00 a.m. London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR;

“Sponsors” means:

- (a) Borealis and OTHP; and/or
- (b) any fund, partnership or other entity managed and controlled by any of the persons referred to in paragraph (a) above or their Affiliates;

“Standby Drawing” means a drawing made under the Liquidity Facility Agreement (i) as a result of a downgrade of a Liquidity Facility Provider below the Requisite Rating or (ii) in the event that the Liquidity Facility Provider fails to renew its commitment under the terms of the Liquidity Facility Agreement;

“Station Access Conditions” means the HS1 Station Access Conditions (December 2012 edition) (as amended from time to time) which are incorporated into each Station Access Agreement between HS1 and a train operator and which set out the terms and conditions governing the train operator’s use of a station and the provision of certain station services and amenities by HS1;

“Station Concession Agreements” means the concession agreement relating to St Pancras International station dated 27 June 2002 between HS1, NR(HS) and London & Continental Stations & Property Limited and the concession agreement relating to the combined international and domestic HS1 stations at Ebbsfleet International, Kent and Stratford International, London dated 13 February 2009 between HS1 and NR(HS) (in each case as amended from time to time);

“Strategic Rail Authority” means the non-departmental public body created under section 201 of the Transport Act 2000 and whose functions under the Railways Act were assumed by the Secretary of State under the Railways Act 2005;

“Subordinated Intragroup Creditor ” means Bufferco, Holdco and any entity which accedes to the STID as a Subordinated Intragroup Creditor in the form set out in the STID;

“Subordinated Intragroup Liabilities” means all present and future liabilities at any time of HS1 to a Subordinated Intragroup Creditor, in respect of any Financial Indebtedness;

Subordinated Step-up Fee Amount means, in respect of a Tranche of Bonds, the Step-Up Fixed Fee Rate and/or the Step-Up Floating Fee Rate, as the case may be;

“Subscription Agreement” means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be);

“Subsidiary” means:

- (a) a subsidiary within the meaning of section 1159 (and Schedule 6) of the Companies Act 2006;
- (b) a subsidiary undertaking within the meaning of section 1162 (and Schedule 7) of the Companies Act 2006;
- (c) an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or similar right of ownership and control for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise;
- (d) an entity treated as a subsidiary in the financial statements of any person pursuant to the Accounting Standards; or
- (e) an entity of which a person has the direct or indirect power to direct the management and the policies, whether through the ownership of voting capital or partnership interests, by contract or otherwise;

“Substitute Liquidity Facility Provider” means one or more substitute liquidity provider(s) having the Requisite Rating who enter or enters into a substitute liquidity facility with and the HS1 Security Trustee and Issuer Security Trustee on substantially the same terms as the Liquidity Facility Agreement such that the then current rating of the Bonds assigned by the Rating Agencies will not fall below the rating assigned to those Bonds as at the date of the issue of the Bonds;

“Successor” means, in relation to the Principal Paying Agent, the other Paying Agents, the Reference Banks, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds of the relevant Tranche which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, reference banks, registrar, transfer agent, agent bank and calculation agent (as the case may be) in relation to the Bonds as may from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent and the Registrar being within the same city as the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders in accordance with Condition 17 (*Notices*);

“Successor Cash Manager” means any successor to the Cash Manager in relation to the Bonds which shall from time to time be appointed under the Issuer Cash Management Agreement;

“Successor Issuer Security Trustee” means any successor to the Issuer Security Trustee which shall from time to time be appointed as such pursuant to the Issuer Deed of Charge;

“Successor Liquidity Facility Provider” means one or more liquidity facility provider(s) having the Requisite Rating who accedes or accede to the Liquidity Facility Agreement in accordance with its terms;

“Super Senior Hedging Agreement” means any Super Senior HS1 Hedging Agreement and/or any Super Senior Issuer Hedging Agreement, as the context requires;

“Super Senior Hedge Counterparty” means the counterparty to any HS1 Super Senior Hedging Agreement or any Super Senior Issuer Hedging Agreement;

“Super Senior HS1 Hedging Agreement” means an HS1 Hedging Agreement under which the obligations of HS1 rank in priority to HS1’s obligations under the other Authorised Credit Facilities, the WC Facility, the PP Notes and each IBLA;

“Super Senior Interest Rate Swap Transaction” means an interest rate swap transaction, or the relevant portion of an interest rate swap transaction, entered into pursuant to a Super Senior HS1 Hedging Agreement, in respect of which HS1 has entered into an Offsetting Interest Rate Swap Transaction;

“Super Senior Issuer Hedging Agreement” means an Issuer Hedging Agreement under which the obligations of Issuer rank in priority to the Issuer’s obligations under the Bonds;

“Supplemental Deed” means the deed dated 30 September 2010 made between the Secretary of State for Transport, HS1 and LCR which is supplemental to the HS1 Lease relating to the track and St Pancras International Station;

“Sweep Facilities” means:

- (a) the seven year senior term facility of a facility amount of up to £230,000,000 to be made available to HS1 by the Original Initial ACF Lenders on or about the Initial Issue Date pursuant to the Initial Authorised Credit Facilities Agreement, for so long as such facility has not been fully repaid (**“Facility A”**); or
- (b) if Facility A has been fully repaid, any other Authorised Credit Facilities, from time to time, which require Excess Cashflow to be applied towards their prepayment (excluding any working capital facilities);

“Tax” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and **“Taxes”**, **“taxation”**, **“taxable”** and comparable expressions will be construed accordingly;

“Tax Authority” means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function, including HMRC;

“Tax Credit” means a credit against, relief or remission for, or repayment of, any Tax;

“Test Date” means 31 March and 30 September in each year or such other dates as may be agreed as a result of a change in Accounting Reference Date (and associated change in the calculation of financial covenants) relating to any Obligor and the Security Group;

“Test Period” means in respect of:

- (a) Historic DSCR, the period commencing on the day immediately following the Test Date falling 12 months previously and ending on the relevant Test Date;
- (b) Projected DSCR, the period commencing on the relevant Test Date and ending on the day immediately preceding the Test Date falling 12 months subsequently;
- (c) the Debt Life Coverage Ratio, the period commencing on and including the day after the relevant Determination Date up to and including the later of (i) the Final Maturity Date and (ii) the date falling two years prior to the scheduled end date of the Concession Agreement;

- (d) the calculation of Excess Cashflow, the period commencing on the day immediately following the Test Date falling 6 months previously and ending on the relevant Test Date;

“Thameslink Box” means the underground concrete box that houses that part of the Kings’ Cross St Pancras station at which the domestic passengers services of the Thameslink TOC call;

“TOC” means a train operating company;

“Total Commitments” means, at any time, the aggregate Commitments of the Liquidity Facility Providers;

“Track Access Agreements” means each of:

- (a) the LSER Track Access Agreement; and
- (b) the EIL Track Access Agreement;

“Trans European Network” means the network of the trans-European high-speed rail system linking a number of European countries including Great Britain, France, Germany, the Netherlands and Belgium comprising high-speed lines, traffic management, tracking and navigation systems, technical installations for data processing and telecommunications;

“Transaction Agreements” means each of the Common Documents and the Transaction Documents;

“Transaction Documents” means:

- (a) each Finance Document; and
- (b) each Issuer Transaction Document;

“Transfer Agent” means, in relation to all or any Tranche of the Registered Bonds, the several institutions at their respective specified offices initially appointed as transfer agents in relation to such Bonds by the Issuer pursuant to the relative Agency Agreement and/or, if applicable, any Successor transfer agents at their respective specified offices in relation to all or any Tranche of the Bonds;

“Treasury Transaction” means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, index linked agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate or price;

“Trigger Event” means any Level 1 Trigger Event or Level 2 Trigger Event, as the context so requires;

“Trigger Event Consequences” means any of the Level 1 Trigger Event Consequences or the Level 2 Trigger Event Consequences, as the context so requires;

“Unrestricted Party” means any Sponsor or shareholder of a member of the Holdco Group (or in each case any nominee thereof or partner in such member of the Holdco Group) acting in a trading, market-making or similar capacity other than to the extent the relevant interest or purchased debt is held for or on behalf of any member of the Holdco Group, or its shareholder or Sponsor in that capacity;

“UKPN Parties” means UK Power Networks Services (Contracting) Limited and UK Power Networks Services Holdings Limited and **“UKPN Party”** shall be construed accordingly.

“Voting Closure Date” means:

- (a) in relation to an Ordinary STID Resolution, the date on which the HS1 Security Trustee has received votes sufficient to pass such Ordinary STID Resolution in accordance with “*Summary of the Common Documents – Security Trust and Intercreditor Deed – Types of Voting Categories – Ordinary Voting Matters*”; and
- (b) in relation to an Extraordinary STID Resolution, the date on which the HS1 Security Trustee has received votes sufficient to pass such Extraordinary STID Resolution in accordance with “*Summary of the Common Documents – Security Trust and Intercreditor Deed – Types of Voting Categories – Extraordinary Voting Matters*”;

“**Voted Qualifying Debt**” means the Outstanding Principal Amount (in the case of Bonds, for the time being outstanding) actually voted thereon by the Qualifying HS1 Secured Creditors;

“**WC Facility**” means a revolving overdraft and working capital facility;

“**WC Facility Agent**” means the Initial ACF Agent as agent under the Initial Authorised Credit Facility, or any of its successors thereto which accede to the CTA and the STID;

“**WC Facility Agreement**” means each facility agreement pursuant to which a WC Facility is made available to HS1;

“**WC Facility Loan**” means a loan made or to be made under the WC Facility or the principal amount outstanding for the time being on that loan; and

“**WC Facility Providers**” means the Original Initial ACF Lenders together with any party which provides HS1 with a WC Facility and accedes to the CTA and the STID.

INDEX OF DEFINED TERMS

The following is an index of the defined terms used in this Prospectus and the pages on which such terms are defined.

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FINANCIAL STATEMENTS OF HS1 AND HOLDCO

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HS1 Limited Directors' Report and Accounts for the 15-Months Ended 31 March 2012

HS1 Limited Directors' Report and Accounts for the Year Ended 31 December 2010

HS1 Limited Unaudited Interim Report and Accounts for the 6-Months Ended 30 September 2012

Helix Acquisition Limited Directors' Report and Financial Statements for the period from 3 November 2010 to 31 March 2012

HS1 Limited

Directors' Report and Financial Statements
15 Months ended 31 March 2012

Company Registration No. 03539665



HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Officers and Registered Office

Directors

C Hood
J McManus
D Pickett
S Sherman
O Steedman
C Thomazi

General Counsel & Company Secretary

L Lazzeri

Registered Office

73 Collier Street
London
N1 9BE

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Directors' Report

The Directors present their report, together with the audited financial statements of the Company, for the 15 months from 1 January 2011 to 31 March 2012.

Results and dividends

The net profit for the period was £403.5m (year to 31 December 2010 restated profit £156.9m) and this amount has been transferred to reserves. The Directors do not propose to pay a dividend (year to 31 December 2010: £nil).

Principal activities

The principal activity of the Company continues to be concession holder of High Speed 1 ("HS1"), the United Kingdom's first high speed railway. The delivery of operations and maintenance responsibilities is achieved principally through contracts with Network Rail (CTRL) Limited ("NR (CTRL)") which operates, maintains and renews, as required, HS1 infrastructure and stations.

On 24 November 2011 the Company issued 988 A shares to Helix Acquisition Limited at £1 each.

Business review and future developments

Following the acquisition of HS1 by its ultimate shareholders Borealis Infrastructure Europe (UK) Ltd and OTPPB Investments (UK) Limited in November 2010, the focus has been on creating the right platform for focused delivery of the business as a high performing commercial operation.

HS1 has reviewed its strategy during the period and has a clear vision to be recognised as the world's leading high speed railway business.

The Company will achieve this by:

- targeting zero injury, absence and environmental incidents;
- maintaining world's best asset performance;
- offering stations that enhance passenger journeys and visitor experiences while maximising spend per head;
- being efficient and delivering superior sustainable shareholder returns; and
- being creative and innovative and working openly with our customers and stakeholders.

Performance during the period to 31 March 2012 has been strong. In particular operational performance of the infrastructure continues to be good, with average delays per train path from the HS1 infrastructure (the Company's primary performance KPI) during the period to 31 March 2012 of 7.7 seconds. The Company's primary financial KPIs are EBITDA (£190.3m for the period) and cash flow (£46.9m inflow in the period - see Cash flow statement). Prior year comparators are not valid or available given the concession and ownership changes during 2010.

In April 2012, the Company has entered into an amended operation, maintenance and renewal contract with Network Rail (CTRL) Ltd. This contract offers better value to HS1 and its customers with an immediate significant reduction in price, and incentivises and facilitates the sharing of future financial outperformance. The amended contract removes risk in relation to the major portion of the cost of operation, maintenance and renewal from HS1 Ltd for the next ten years.

During the period the Company has also closed out the vast majority of the continuing infrastructure works including replacing the terrazzo tiling at Ebbsfleet International and repaving the south end of Midland Road just to the west of St Pancras International.

The Company has reviewed the recorded fixed asset values under FRS11. A material change in economic conditions has occurred in the period, therefore the Company has reported as at 31 March 2012 a £527.5m reversal in impairment (net of Government grants). An impairment of £2.557bn was recorded in 2009 following a reduction of the concession life. More information on this can be found in Note 8.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Directors' Report

Business review and future developments (continued)

In addition, the Directors have reviewed and amended the concession accounting treatment of the Company, requiring a prior year restatement of the financial statements. The Directors have revised the estimated lives of fixed assets, the amortisation period for grants and the assessment of discounted minimum future payments under finance leases to ensure they are fully depreciated or amortised by the end of the concession at 31 December 2040. The impacts of these changes are outlined in Note 7.

The business outlook continues to be good. The Olympics is a major event for the Company in the coming 12 months with the HS1 infrastructure providing a key journey option to the Olympic Park. Infrastructure and signalling upgrades are complete and a significant amount of testing has been on-going to ensure a smooth service over that period. In the medium to long term, the key value drivers are to deliver additional train paths, which the Company is pursuing with existing and potential new customers, continued strong operational performance, ongoing efficiency improvements and agreement of the next Price Review with the Office of Rail Regulation, effective from 1 April 2015.

Principal risks and uncertainties

The Company's regulatory and contractual arrangements generally provide a low risk, stable business environment. The principal key risk factors and uncertainties for the company are train path volumes (of which the domestic train paths are underpinned by the UK Government), performance regime payments under the insurance excess, reliance on two key customers (London & South Eastern Railway and Eurostar International Limited who have however both reported strong underlying passenger growth), sustained low Retail Price Indices and commercial pressure on the unregulated margin.

Directors and their interests

The Directors who served during the period and to the date of approval of the financial statements were as follows:

C Thomazi	
D Pickett	
R Byers	Resigned 14 April 2011
S Sherman	
P Busslinger	Resigned 16 February 2012
K Kerr	Resigned 17 February 2011
O Steedman	Appointed 17 February 2011
C Hood	Appointed 14 April 2011
J McManus	Appointed 16 February 2012

None of the Directors who served during the period had any interests in the shares of this or any other group company.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts. More information is provided in Note 1 of the financial statements.

Employees

The Company is a non-discriminatory employer operating an equal opportunities policy, committed to the employment and promotion of all staff on the basis of merit, without regard to race, colour, sex, marital status or disability. Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of service as other staff in relation to career development and promotion. Details on the number of employees and related costs can be found in note 3 to the financial statements on page 16.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Directors' Report Health and safety

The Company's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all associated staff. The Company has a commitment to continually improve its performance in the areas of health, safety and the environment.

The Company actively supports NR (CTRL) Ltd and its contractors in its promotion of strict adherence to all safety standards to ensure a safe environment for all parties using the railway, including train operators and their passengers and staff and customers of the facilities in and adjacent to the stations.

Environment

The HS1 Sustainability Plan sets objectives and targets for management of sustainability on the asset. It covers areas such as energy, waste, water and pollution, biodiversity, delivery and rail sustainability. Progress is monitored on delivery and overall the plan is on track for completion, with 34% completed.

A key element of the plan is managing energy consumption and the carbon footprint. The carbon footprint for HS1 (excluding traction power) for April 2010-March 2011 was 29,233 tonnes CO₂. This represents a 4% increase over the previous year but demonstrates a declining rate of increase as the HS1 business matures in developing the asset. A key element of the carbon footprint is St Pancras station and energy efficiency work is being implemented in order to manage reductions in the carbon footprint. As the Company has now made the transition from a Government owned company, data for the footprint for 2011-12 will be reported in the next report in terms of greenhouse gas emission intensity (tonnes CO₂ / £m revenue).

The Company is registered as part of the Carbon Reduction Commitment. This requires HS1 to submit an annual report to the Environment Agency of the carbon footprint from the stations and depots. A league table of companies is produced annually and positions in the league table are determined by company performance in reducing the carbon footprint. The baseline for the CRC footprint is 21,926 tonnes CO₂ and the Company is currently placed within the top third of companies.

Creditor payment policy

The Company agrees terms of payment with suppliers and contractors in advance and abides by those terms of payment. At 31 March the Company's creditor days compared with the value of invoices received in the period was 10 days.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

KPMG Audit plc resigned as auditors during the period and Deloitte LLP were appointed in their stead. Deloitte LLP have indicated their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be deemed to be re-appointed for another term in the absence of an Annual General Meeting.

BY ORDER OF THE BOARD

DARRIN PICKETT

Director

12 June 2012

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of HS1 Limited

We have audited the financial statements of HS1 Limited for the period from 1 January 2011 to 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cashflow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the period from 1 January 2011 to 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Clark FCA

Andrew Clark (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 June 2012

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Profit and Loss Account

For the period to 31 March 2012

	Note	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated* £m
Turnover	2	340.6	254.9
Operating expenditure			
Reversal of impairment of fixed assets	8	527.5	-
Other operating expenditure	3	(234.3)	(193.5)
Operating profit on ordinary activities before interest		633.8	61.4
Interest payable	4	(172.0)	(174.9)
Interest receivable	4	0.3	94.5
Profit / (loss) on activities before taxation		462.1	(19.0)
Taxation	6	(58.6)	175.9
Profit for the financial period / year	14	403.5	156.9

*- See Note 7

All activities of the Company relate to continuing operations.

There is no difference between the reported loss and the historical cost profit and loss and accordingly no note of historical profits and losses has been presented.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Statement of Total Recognised Gains and Losses for the 15 months ended 31 March 2012

	Note	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated* £m
Profit for the financial period / year		403.5	156.9
Total recognised gains and losses for the Period / year		403.5	156.9
Prior period adjustment	7		
- To December 2009		(9.6)	
- For year ended 31 December 2010		(15.1)	
Total gains and losses recognised since the last annual report		378.8	

*-See Note 7

The comparative statutory accounts included in the Statement of Total Recognised Gains and Losses capital contributions from London & Continental Railways Limited (£461.2m) and the Secretary of State (£58.1m). These have been removed from the comparative figures as the Company considers that these items should have been presented directly in reserves and not within the Statement of Total Recognised Gains and Losses.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Reconciliation of movements in shareholder's funds

	15 Months to 31 March 2012	Year to 31 December 2010 Restated*
	£m	£m
Opening shareholder's deficit (restated)	(279.1)	(955.3)
Profit for the financial period/year	403.5	156.9
Capital contribution from Secretary of State	-	58.1
Capital contribution from London & Continental Railways Limited	-	461.2
Closing shareholder's surplus / (deficit)	124.4	(279.1)

*- See Note 7

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Balance Sheet

As at 31 March 2012

	Note	31 March 2012 £m	31 December 2010 Restated* £m
FIXED ASSETS			
Tangible assets	8	3,658.6	2,866.4
Investments	9	-	-
		<u>3,658.6</u>	<u>2,866.4</u>
CURRENT ASSETS			
Stocks		-	0.3
Debtors : amounts falling due within one year	10	16.0	17.5
Debtors : amounts falling due after more than one year	10	147.3	196.0
Total debtors		163.3	213.5
Cash at bank and in hand		57.9	11.0
		<u>221.2</u>	<u>224.8</u>
CREDITORS : amounts falling due within one year	11	(224.3)	(182.9)
NET CURRENT (LIABILITIES) / ASSETS		<u>(3.1)</u>	<u>41.9</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,655.5	2,908.3
CREDITORS : amounts falling due after more than one year	12	(3,531.1)	(3,187.4)
NET ASSETS / (LIABILITIES)		<u>124.4</u>	<u>(279.1)</u>
CAPITAL AND RESERVES			
Called up share capital	13	0.0	0.0
Profit and loss account	14	124.4	(279.1)
EQUITY SHAREHOLDER'S SURPLUS / (DEFICIT)		<u>124.4</u>	<u>(279.1)</u>

*- See Note 7

These financial statements were approved by the Board of Directors on 12 June 2012 and are signed on its behalf by:

Director **DARRIN PICKETT**

Registered Company Number: 03539665

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

CASH FLOW STATEMENT

For the 15 months to 31 March 2012

	Note	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated* £m
Net cash inflow from operating activities	15	195.0	134.6
Returns on investments and servicing of finance			
Interest received		0.3	0.3
Finance costs paid		(97.4)	(158.2)
Interest element of finance lease rental		(21.7)	(16.6)
Net cash (outflow) from returns on investment and servicing of finance		(118.8)	(174.5)
Cash flow inflow / (outflow) before financing		76.2	(39.9)
Financing			
Repayment of bank debt		(15.0)	(828.6)
Cash inflow from new bank debt		0.0	1,283.6
Cash (outflow) / inflow from Helix parent undertaking		(5.0)	552.4
Cash (outflow) into escrow accounts		(9.3)	(9.7)
Repayment of LCR parent undertaking debt		0.0	(1,079.6)
Capital contributions from DFT		0.0	58.1
Net cash (outflow) from financing		(29.3)	(23.8)
Increase / (decrease) in cash in the period		46.9	(63.7)

*- See note 7

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Notes to the Accounts

15 Months to 31 March 2012

1. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom Law and accounting standards and under the historical cost accounting rules. A summary of the principal accounting policies adopted by the Directors, which have been consistently applied throughout the current period and prior year except where noted, is shown below.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and results of subsidiaries are reflected in these accounts only to the extent that dividends are declared.

Going concern

After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Key factors that have been considered as part of these enquiries include:

- the Company has satisfactory financial resources at the balance sheet date and future cash flow projections indicate sufficient liquidity for the foreseeable future.
- the Company has £1,295m of external bank debt outstanding at 31 March 2012, with principal amounts maturing in November 2015 and November 2017. Work is underway to look at refinancing this with longer term debt but there is no immediate refinancing risk.
- HS1 operates in a low risk, stable regulatory and commercial environment as noted in the risk factors section of the Directors' Report.
- the Company's core cash revenues are derived from train and station income which historically has exhibited low volatility. Cash revenues are highly dependent on two key customers, but as noted in the section above, strong underlying performance from these businesses and government underpinning arrangement reduces the risk to HS1 from this reliance.
- the key core operational cash outflows have low variability, representing payments to NR (CTRL) for operations and maintenance services and UK Power Networks for lease costs on electrical assets – both of which are subject to fixed price long term contracts.

Accordingly, the directors continue to adopt the going concern basis in preparing the Report and Financial Statements.

Turnover

Turnover, which excludes Value Added Tax, comprises amounts receivable from the train operators using HS1, retail outlets and car parks. Turnover is derived entirely in the United Kingdom.

Turnover is principally from track and station access arrangements which is recognised in the period earned based primarily on usage and agreed regulatory or contractual pricing mechanisms. The access arrangements have a performance regime within them however the Company in the period suffered no material penalties from this.

Retail income is recognised on a straight line basis over the term of the lease and is generally minimum guaranteed rental arrangements, with some upside based on the retailer's turnover if certain targets are met.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

1. Principal accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at fair value less accumulated depreciation and provision for impairment. The HS1 infrastructure will be returned to the Secretary of State in 2040 for nil proceeds. At 31 December 2010, the Company reported an economic life of 125 years for land, buildings and structures and, in order to reflect fully the cost to the Company of returning the residual value of the HS1 assets to the Secretary of State for no consideration, a provision was being built up over the life of the asset by recording a concession charge in the Profit and Loss account each year.

Following a review of this policy, the Company has adopted a different interpretation of the requirements of FRS5 *Reporting the Substance of Transactions* Application Note F *Private Finance Initiative and Similar Contracts* and will now depreciate the assets to the lesser of useful economic life and the end of the concession. No concession charge or provision will now be recorded as the fixed assets will have nil net book value at the end of the concession.

Assets are now depreciated as follows:	For the 15 months ended 31 Mar 12	For the 12 months ended 31 Dec 10 as originally stated
Land, buildings and structures	31 years	125 years
Leased electrification assets	31 years	50 years
Depot buildings	25-31 years	25-40 years
Track and overhead catenary	25 years	25 years
Signalling	15 years	15 years
Plant	12 years	12 years

The fixed assets depreciation and the related grants have accordingly being restated to be depreciated over their new remaining lives. This has resulted in a prior year adjustment as further described in note 7.

Renewals

Renewals expenditure that is capital in nature is capitalised into fixed assets which are depreciated over the shorter of the useful economic lives and the concession life. Other renewals expenditure is expensed as incurred.

In the prior year, income from renewals charges to customers was recognised as invoiced. Cash received into escrow in advance of expenditure was treated as other receivables.

Following a review of this accounting policy, it is now considered more appropriate to recognise initially a deferred income balance to offset cash received into escrow recorded as other receivables ("Escrow deferred income"). This balance will be released to turnover in line with the pattern of expenditure on renewals. This has resulted in a prior year adjustment as further described in note 7.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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1. Principal accounting policies (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases and financing arrangements

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

At 31 December 2010 assets held under finance leases were capitalised and included in tangible fixed assets and depreciated over the shorter of the useful economic lives and the lease term. The obligations relating to finance leases, net of finance charges in respect of future periods, were included within liabilities. The interest was allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period.

Since the assets and liabilities in relation to the finance lease are novated to the Secretary of State for nil consideration at the end of the concession at 31 December 2040, the Company has revised down the estimated lives of the assets and obligations of the finance lease to the concession life (to December 2040). This has resulted in a prior year adjustment as further described in note 7.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Grants

Grants received from HM Government as contributions to the cost of construction have been treated as deferred income and are being released to the profit and loss account annually, against depreciation, over the expected lives of the relevant assets. As noted above in tangible fixed assets, the lives of the relevant assets and therefore also the grants have been adjusted to ensure the grants are fully amortised by 31 December 2040. This has resulted in a prior year adjustment as further described in note 7.

Pensions

Liabilities in respect of retirement and death benefits are provided for by payments to the HS1 Section of the Railways Pension Scheme, a defined benefit scheme now closed to new members, which provided benefits for eligible employees. A new defined contribution scheme managed by Scottish Widows has been set up for new eligible entrants.

Derivative financial instruments

The Company uses financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are recognised at cost with no fair value adjustments being recognised in the accounts.

Bank Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accruals basis in the profit and loss account using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they rise.

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2. Turnover	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated £m
HS1	340.6	254.3
Long term contracts	0.0	0.6
	<u>340.6</u>	<u>254.9</u>

3. Other operating expenditure

- a) The average number of staff employed per month by the Company during the period was 35 (2010: 32). All staff were employed in the management of HS1. Their aggregate remuneration comprised:

	15 Months to 31 March 2012 £m	Year to 31 December 2010 £m
Wages and salaries	3.2	2.7
Social security costs	0.3	0.3
Pension schemes	0.4	0.4
	<u>3.9</u>	<u>3.4</u>

- b) The operating expenditure includes:

	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated £m
Reversal of fixed asset impairment (Note 8)	(940.9)	-
Reversal of accelerated amortisation of Government grants (Note 8)	413.4	-
	<u>(527.5)</u>	<u>-</u>
Depreciation – owned assets	145.9	116.8
Depreciation – leased assets	2.8	2.2
Amortisation of grants	(64.7)	(51.8)
	£'000	£'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	28	50
Other services provided by auditor	5	2
	<u>33</u>	<u>52</u>

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4. Interest

	15 Months to 31 March 2012 £m	Year to 31 December 2010 £m
Interest payable		
Commercial bank debt interest and derivatives	70.6	147.3
Amortisation of debt set up costs	6.1	-
Interest payable to Parent undertaking	69.0	6.5
Finance lease interest	26.3	21.0
Other interest payable	-	0.1
	<u>172.0</u>	<u>174.9</u>
Interest receivable		
Amortisation of fair value adjustment to debt instruments	0.0	94.2
Other interest receivable	0.3	0.3
	<u>0.3</u>	<u>94.5</u>

5. Directors' emoluments

Only one Director is paid by the Company and the total emoluments including charges for the services of that Director was:

	15 Months to 31 March 2012 £'000	Year to 31 December 2010 £'000
Fees	30	0
Emoluments	-	696
Pension	-	116
Total	<u>30</u>	<u>812</u>
Amount in respect of the highest paid Director		
Fees	30	0
Emoluments	-	328
Pension	-	33
Total	<u>30</u>	<u>361</u>

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6. Taxation	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated £m
Current tax	-	-
Deferred tax charge / (credit)	58.6	(175.9)
Tax charge / (credit) on profit on ordinary activities	<u>58.6</u>	<u>(175.9)</u>
Current tax reconciliation		
Profit / (loss) on ordinary activities before tax	<u>462.1</u>	<u>(19.0)</u>
Profit on ordinary activities multiplied by tax rate of 26.4%: (year to 31 December 2010 28.0%)	122.0	(5.4)
Effects of :		
Reversal of impairment of assets previously recognised	(133.4)	-
Fair value adjustment not taxable	=	(26.4)
Timing differences on capital allowances & depreciation	(33.8)	9.9
Unutilised tax losses carried forwards	41.7	21.6
Expenses not deductible for tax purposes	6.7	0.3
Other	(3.2)	-
Total current tax charge	<u>0.0</u>	<u>0.0</u>

The movement on deferred tax in the period is outlined below:

	Timing Differences £m	Trading Losses £m	Total £m
At 1 January 2011 (as previously stated)	124.9	47.7	172.6
Prior year adjustment	3.3	-	3.3
At 1 January 2011 (restated)	<u>128.2</u>	<u>47.7</u>	<u>175.9</u>
Reduction in future years tax rate	(14.2)	(5.2)	(19.4)
Movement in the period	(76.2)	38.0	(38.2)
Prior year adjustment	-	(1.0)	(1.0)
At 31 March 2012	<u>37.8</u>	<u>79.5</u>	<u>117.3</u>

The deferred asset has been disclosed

	31 March 2012 £m	31 December 2010 Restated £m
Debtors falling due within one year	0.0	0.5
Debtors falling due after more than one year	117.3	175.4
	<u>117.3</u>	<u>175.9</u>

The Finance (No.4) Bill 2012, which provides for a reduction in the main rate of UK corporation tax to 24% effective from 1 April 2012, was substantially enacted on 29 March 2012. This reduced rate has been reflected in the calculation of deferred tax.

The Government has also announced that it intends to introduce further reductions in the main tax rate, with the rate decreasing by 1% each year to 22% by 1 April 2014. These further reductions to the tax rates have not been substantively enacted at the balance sheet date and are therefore not reflected in these financial statements.

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7. Prior period adjustment

As explained in Note 1, the Company has reviewed the concession accounting treatment of HS1 Limited and have revised the estimated lives of fixed assets, the amortisation period for grants and the assessment of discounted minimum future payments under finance leases to ensure they are fully depreciated or amortised by the end of the concession at 31 December 2040. The corresponding provision, built up through charging an annual concession fee, previously recorded to deliver nil net balances as at 31 December 2040 has therefore been removed.

In addition, management have considered the accounting treatment for escrow accounts (which are accounts built up to cover future rail and station renewal expenditure) and now consider it more appropriate to record cash receipts within year as deferred income rather than recognising in the profit and loss account.

The effect of these changes are summarised below.

Profit & Loss Account

	As previously stated 31 Dec10 £m	Adjustment £m	Restated 31 Dec 2010 £m
Turnover	262.7	(7.8)	254.9
Operating expenditure	(182.9)	(10.6)	(193.5)
Operating profit on ordinary activities	79.8	(18.4)	61.4
Interest payable	(174.9)	-	(174.9)
Interest receivable	94.5	-	94.5
Loss on ordinary activities before taxation	(0.6)	(18.4)	(19.0)
Taxation	172.6	3.3	175.9
Profit for the financial period	<u>172.0</u>	<u>(15.1)</u>	<u>156.9</u>

In summary the adjustments are:

- Turnover: elimination of the recognition of escrow monies received
- Operating expenditure: net of fixed asset depreciation (-£49.5m) and grant amortisation (+£21.4m) from revision in estimated lives and the removal of the concession charge (+£17.5m).
- Taxation: impact of these changes on the deferred taxation position

Statement of Total Recognised Gains and Losses

	As previously stated 31Dec10 £m	Adjustment £m	Restated 31 Dec 2010 £m
Profit for the financial period	172.0	(15.1)	156.9
Total recognised gains for the period	<u>172.0</u>	<u>(15.1)</u>	<u>156.9</u>

Relates to the Profit & Loss impact above.

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7. Prior period adjustment (continued)**Balance Sheet**

	As previously stated 31 Dec10 £m	Adjustment £m	Restated 31 Dec 2010 £m
Tangible assets	2,935.2	(68.8)	2,866.4
Investment	-	-	-
Stocks	0.3	-	0.3
Debtors: due within one year	17.5	-	17.5
Debtors: due after one year	188.0	8.0	196.0
Cash at bank and in hand	15.7	(4.7)	11.0
Creditors: due within one year	(143.9)	(39.0)	(182.9)
Net current assets	77.6	(35.7)	41.9
Total assets less current liabilities	3,012.8	(104.5)	2,908.3
Creditors: due after one year	(3,243.8)	56.4	(3,187.4)
Provisions	(23.4)	23.4	-
Net Liabilities	(254.4)	(24.7)	(279.1)
Capital and Reserves			
Called up share capital	-	-	-
Profit and loss account	(254.4)	(24.7)	(279.1)
Equity shareholder's deficit	(254.4)	(24.7)	(279.1)

In summary the adjustments are:

- Fixed assets: to reflect the revised lives of the assets.
- Debtors: impact of increased deferred tax asset (£3.3m) and cash adjustment (£4.7m) noted below
- Cash at bank and in hand: reallocation of station escrow balance into other receivables
- Creditors due within one year: to reflect the due within one year impact of the revised grant amortisation lives (-£21.4m) and the reallocation of leasing obligations from creditors greater than one year (-£17.6m).
- Creditors due after one year: to reflect the impact of the revised grant amortisation lives (£50.8m), the creation of the deferred income balance on the escrow accounts (-£12.0m) and the reallocation of leasing obligations to creditors less than one year (£17.6m).
- Provisions: removal of the previously reported concession fee provision.
- Profit and Loss accounts: £15.1m loss impact in year ended 31 December 2010 of these changes plus £9.6m prior year adjustment (Note 14)

Cash flow statement

	As previously stated 31 Dec10 £m	Adjustment £m	Restated 31 Dec 2010 £m
Net cash inflow from operating activities	129.6	5.0	134.6
Returns on investment and servicing of finance	(174.5)	-	(174.5)
Cash flow before financing	(44.9)	5.0	(39.9)
Net cash flow from financing	(14.1)	(9.7)	(23.8)
(Decrease) in cash in the period	(59.0)	(4.7)	(63.7)

In summary the adjustments are:

- Net cash inflow from operating activities: reallocation of the payments made into escrow out of operating activities and into financing (+£9.7m) offset by reallocation of station escrow balance into non-cash flow (-£4.7m: see balance sheet above)
- Net cash flow from financing: restatement of payments into escrow as a financing activity
- Net £4.7m reduction in cash flow in the restatement as per the movement in Cash at Bank and in hand in balance sheet above. This represents reallocation of balance sheet items not actual cashflow.

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8. Tangible assets

	Land and buildings £m	Plant & equipment £m	Total £m
Cost :			
At 1 January 2011	4,771.8	2,343.1	7,114.9
At 31 March 2012	4,771.8	2,343.1	7,114.9
Depreciation :			
At 1 January 2011 (as originally stated)	2,679.5	1,500.2	4,179.7
Prior period adjustment	67.5	1.3	68.8
At 1 January 2011 (restated)	2,747.0	1,501.5	4,248.5
Depreciation charged in period	84.2	64.5	148.7
Reversal of impairment	(676.4)	(264.5)	(940.9)
At 31 March 2012	2,154.8	1,301.5	3,456.3
Net book value:			
31 March 2012	2,617.0	1,041.6	3,658.6
1 January 2011 (as originally stated)	2,092.3	842.9	2,935.2
Prior period adjustment	(67.5)	(1.3)	(68.8)
1 January 2011 (restated)	2,024.8	841.6	2,866.4

Land and buildings are all attributable to short leasehold assets.

Plant & equipment includes assets with a net book value of £63.5m held under finance leases (31 December 2010 – £66.2m restated). Depreciation on these assets was £2.8m in the period (year ended 31 December 2010: £2.2m restated).

An impairment review of fixed assets was carried out at 31 March 2012, in accordance with FRS 11. Within the Company's business a single cash generating unit is identified within its fixed assets, being assets associated with the provision of high-speed train paths and related activities. The benefits derived from owning and operating HS1 are evaluated when considering the value of HS1 related assets.

This asset group was subjected to a "value in use" review based on discounting projected operating cash flows from the assets. A pre-tax discount rate of 8.5% was used based on the estimated weighted average pre-tax cost of capital of quoted companies with similar activities and risks (2010: 9.4%).

Reviewing the HS1 business projections to the end of the concession in 2040 indicated a material increase in the value of the business against the recorded cost of the entire HS1 asset (net of Government grants). The projections assume long term RPI inflation rates of 2.75% and modest growth in international train paths. The increase in value was due to an improvement in economic conditions since the last valuation date from:

- higher track revenue from increased train volumes and an improved indexation calculation agreed with customers in March 2012;
- lower costs, especially on HS1's own cost base;
- improved unregulated income stream performance, especially on retail and car parking;
- improved certainty on cash flows and operational risks following outperformance of targets in the last 15 months; and
- lower discount rates, especially on long term cost of debt assumptions.

In 2009, HS1 Limited recorded a pre-tax fixed asset impairment of £2,557m (net of grants) following a reduction in the concession life and other factors. Under FRS11, a part reversal of this impairment is required if a change in economic conditions has occurred. Accordingly, given the improved conditions highlighted above, a partial reversal of this impairment has been made in the period (£940.9m fixed assets net of £413.4m grants totalling £527.5m).

At 31 March 2012 the depreciated carrying value of the HS1 assets above, net of deferred Government grants (notes 11 and 12) was £2,051.2m (31 December 2010 £1,607.7m restated).

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9. Investments	15 Months to 31 March 2012 £m	Year to 31 December 2010 £m
At 1 January	-	33.0
Capital reduction	-	(33.0)
At 31 March	<u>-</u>	<u>-</u>

The company in which the Company's interest at the period end is more than 20% is:

	Country of incorporation	Principal activity	Class and percentage of shares held
High Speed One (HS1) Limited	Great Britain	Dormant	100% of ordinary share capital

In the opinion of Directors the value of the investment is not less than the amount stated in the balance sheet.

10. Debtors

Amounts falling due within one year	31 March 2012 £m	31 December 2010 £m
Trade debtors	8.4	3.4
Amount owed by parent undertakings	0.2	-
Deferred tax asset	-	0.5
Other debtors	0.7	4.0
Prepayments and accrued income	6.7	9.6
	<u>16.0</u>	<u>17.5</u>

Amount owed by parent undertakings relates to an intercompany balance at zero interest.

Amounts falling due after more than one year	31 March 2012 £m	31 December 2010 Restated £m
Other receivables	30.0	20.6
Deferred tax asset	117.3	175.4
	<u>147.3</u>	<u>196.0</u>

Other receivables represent cash amounts held in escrow to fund certain future renewals and replacements, together with railway related spares where the risk of ownership lies with NR (CTRL) Limited. Access to the escrow funds is restricted under the terms of the revised concession agreement.

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11. Creditors : amounts falling due within one year	31 March 2012 £m	31 December 2010 Restated £m
Trade creditors	0.2	5.4
Amount owed to parent undertaking	27.6	3.0
Deferred Government Grants	69.7	51.8
Bank loans	17.4	7.4
Less: debt set up costs	(4.8)	(4.8)
Other creditors including taxation and social security	9.8	8.6
Leasing obligations	18.4	17.6
Accruals and deferred income	86.0	93.9
	224.3	182.9

Amounts owed to parent undertaking relates to interest due on the 9.75% loan repayable at such time as the borrower and lender shall agree together.

At December 2010 the leasing obligations were all assumed to be in creditors due after more than one year when £17.6m actually fell due within one year.

12. Creditors : amounts falling due after more than one year	31 March 2012 £m	31 December 2010 Restated £m
Amount owed to parent undertaking	567.1	552.4
Deferred Government Grants	1,537.7	1,206.9
Bank loans	1,281.7	1,302.6
Less: debt issue costs	(15.1)	(21.2)
Accruals and deferred income	0.6	0.7
Escrow deferred income	21.4	12.0
Leasing obligations	137.7	134.0
	3,531.1	3,187.4

31 December 2010 creditors due after more than one year originally stated as £3,243.8m. £56.4m reduction in the restatement due to change in grant amortisation lives (£50.8m reduction), creation of escrow deferred income (£12.0m increase) and reallocation of leasing obligations between less than and greater than one year (£17.6m reduction). See Note 7.

Escrow deferred income recognises the deferral of monies put into escrow (the cash element which is included in other receivables above). The deferred income is only recognised when expenditure is incurred in the future to offset the operating cost or depreciation on the capital item.

Bank Loans:

A consortium of banks has provided the facilities shown to the Company in order to fund the repayment of outstanding loans at the time of acquisition. The loan is repayable in instalments as set out in the loan facilities agreement. The principal elements of the loan are repayable in November 2015 and November 2017.

Interest on the facility is charged at LIBOR plus a fixed margin of between 1.5% and 2.75%. The Company has entered into fixed interest rate swaps to mitigate its interest exposure which have a fair value liability of £161m at 31 March 2012 (31 December 2010: £23m).

The loan is secured by a fixed and floating charge over all the assets of the Company and a charge over the shares of the Company.

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12. Creditors: amounts falling due after more than one year (continued)**Shareholder Loans:**

The shareholder loan is subject to interest at 9.75% per annum and is repayable at such time as the borrower and lender shall agree together.

Finance lease arrangements for the provision of electrical distribution assets for HS1 are leased over a 50 year period ending in 2057. At the end of the concession at 31 December 2040 the assets and obligations are novated back to the Secretary of State at nil consideration and therefore the obligations are calculated with a life ending 31 December 2040.

The external debt, government grants and leasing obligation maturities are split as follows:

	Debt		Government Grants		Finance Lease	
	31 March 2012	31 Dec 2010	31 March 2012	31 Dec 2010 restated	31 March 2012	31 Dec 2010
	£m	£m	£m	£m	£m	£m
Amounts due:						
Within 1 year	17.4	7.4	69.7	51.8	18.4	17.6
1 to 2 years	22.4	16.2	69.7	51.8	18.9	18.4
3 to 5 years	856.4	870.0	209.1	155.4	59.9	58.3
Over 5 years	398.8	416.4	1,258.9	999.7	693.6	714.1
Less: debt issue costs	(19.9)	(26.0)	-	=	=	-
Finance charges	4.1	=	=	=	(634.7)	(656.8)
Total	1,279.2	1,284.0	1,607.4	1,258.7	156.1	151.6

13. Share capital

	31 March 2012	31 December 2010
Allotted, issued, called up and fully paid :	£	£
990 A shares of £1 each	990	2
10 B shares of £1 each	10	10
	<u>1,000</u>	<u>12</u>
Share premium account		
10 B Shares issued at a premium of £199.	<u>1,990</u>	<u>1,990</u>

The holders of A shares carry all voting rights with the exception of the rights to appoint Directors which are held by holders of the B shares.

On 24 November 2011 the Company issued 988 A shares to Helix Acquisition Limited at £1 each.

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14. Profit and loss account

	31 March 2012 £m	31 December 2010 Restated £m
Balance b/fwd as originally stated	(279.1)	(945.7)
Prior year adjustment	-	(9.6)
Balance b/fwd (restated)	(279.1)	(955.3)
Profit for the period	403.5	156.9
LCR loan waiver	-	461.2
Capital contribution from the Secretary of State for Transport	-	58.1
Balance carried forward	<u>124.4</u>	<u>(279.1)</u>

15. Notes to the cash flow statement

a) Reconciliation of operating result to net cash flow from operating activities:

	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated £m
Operating profit	633.8	61.4
Depreciation – owned assets	145.9	116.8
Depreciation – leased assets	2.8	2.2
Reverse impairment – fixed assets	(940.9)	-
Reverse impairment – deferred Govt. grants	413.4	-
Amortisation of grants	(64.7)	(51.8)
Amortisation debt set up costs	-	0.5
Decrease in stocks	0.3	7.9
Decrease in debtors	0.9	4.9
Increase / (Decrease) in creditors and deferred income	3.5	(7.3)
Net cash inflow from operating activities	<u>195.0</u>	<u>134.6</u>

b) Reconciliation of net cash flow to movement in net debt

	15 Months to 31 March 2012 £m	Year to 31 December 2010 Restated £m
Increase / (decrease) in cash in the period	46.9	(63.7)
Cash inflow from change in debt	41.7	72.3
Movement on escrow accounts	9.3	7.8
Change in net debt arising from cash flows	<u>97.9</u>	<u>16.4</u>
Change in net debt arising from non-cash movements	(56.2)	550.5
Movement in net debt in period	<u>41.7</u>	<u>566.9</u>
Net debt at 1 January	(1,964.9)	(2,531.8)
Net debt at 31 March / 31 December	<u>(1,923.2)</u>	<u>(1,964.9)</u>

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15. Notes to the cash flow statement (continued)

c) Analysis of changes in net debt

	1 January 2011 Restated £m	Cash flow £m	Non-cash Movement £m	31 March 2012 £m
Cash at Bank and in hand	11.0	46.9	-	57.9
Commercial debt under 1 year	(2.6)	7.4	(17.4)	(12.6)
Commercial debt over 1 year	(1,281.4)	7.6	7.2	(1,266.6)
Amount owed to Helix parent undertaking	(552.4)	5.0	(19.7)	(567.1)
Finance leases (capital element)	(151.6)	21.7	(26.3)	(156.2)
Escrow accounts	12.1	9.3	-	21.4
Net debt	(1,964.9)	97.9	(56.2)	(1,923.2)

16. Pensions**Background**

a) On 1 November 2010 a new HS1 Section of the Railways Pension Scheme was established and from that date the Company contributes to the scheme. Prior to that date the Company contributed to the Eurostar Section of the Railways Pension Scheme. During the 15 months to 31 March 2012 a share of fund transfer was made from the Eurostar section and a top-up from the previous owners, London & Continental Railways Limited, that effectively led to the scheme being fully funded as at 1 November 2010. The scheme provides defined benefits, based on final pensionable earnings, to employees.

b) The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the period are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit.

c) Employer contributions for the period ending 31 March 2012 were 15.84% of Section Pay. Following completion of the 31 December 2010 triannual valuation, the Company has agreed with the Trustee of the scheme to keep contribution rates flat for the next 3 years from 1 April 2012.

d) At a Board meeting on 17th February 2011 the directors resolved to close the scheme to new entrants and a separate defined contribution scheme was set up.

Scheme disclosures**i. Summary of assumptions**

The figures have been prepared with the assistance of the Company's actuarial advisers Towers Watson with the following key assumptions

	31 March 2012 % pa	31 December 2010 % pa
1. Discount rate	5.2	5.5
2. Price inflation (RPI measure)	3.2	3.5
3. Increases to deferred pensions (CPI measure)	2.2	3.0
4. Pension increases (CPI measure)	2.2	3.0
5. Salary increases	4.45	4.75
6. Expected return on Section assets	6.7	7.8

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16. Pensions (continued)

The expected return on Section assets assumption was determined as the average of the expected returns on the assets held by the Section on the accounting date. The rates of return for each class are set out in the table below and were determined as follows:-

- **Growth assets and property:** consistent with the median assumption used in our advisors Asset Liability Modelling.
- **Bonds:** set to reflect the yields on the bond holdings.
- **Other assets:** current short-term returns on cash deposits (most "other" assets are cash).

	Long-term rate of return expected on 31 March 2012 % pa	Value at 31 March 2012 £m	Long-term rate of return expected on 31 December 2010 % pa	Value at 31 December 2010 £m
Growth assets	7.1	5.193	8.0	2.587
Government bonds	3.1	0.207	4.2	0.075
Non-Government bonds	4.6	0.355	5.4	0.133
Property	-	-	7.4	0.159
Other assets	2.5	0.205	3.7	0.003
Total asset value	6.7	5.960	7.8	2.957

The assumed average expectation of life in years at age 65 is as follows (before postcode-based adjustments for males):

Group	Pension / Pensionable Pay	31 March 2012	31 December 2010
Male currently age 65	Pension under £9,300* pa or pensionable pay under £35,000** pa	20.5	19.8
	Others	22.6	21.5
Male currently age 45	Pension under £9,300* pa or pensionable pay under £35,000** pa	22.8	22.2
	Others	24.9	23.7
Female Currently age 65	Pension under £3,300*** pa or pensionable pay under £35,000** pa	22.4	21.7
	Others	24.8	22.7
Female currently age 45	Pension under £3,300*** pa or pensionable pay under £35,000** pa	24.9	23.2
	Others	27.1	24.2

2010 life expectancy figures: * under £8,500; ** under £30,000; *** under £3,000

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16. Pensions (continued)**ii. Pension Scheme Asset/(Liability) at end of period**

	Period ended 31 March 2012 £m	Period ended 31 December 2010 £m
1. Section liabilities at end of period	5.890	3.943
2. Value of assets at end of period	5.960	2.957
3. (Surplus)/deficit at end of period	(0.070)	0.986
4. Adjustment for the members' share of (surplus)/deficit	(0.028)	0.394
5. LCR adjustment (see note iii below)	-	0.584
6. Pension Scheme (Asset) / Liability at end of period	(0.042)	0.008

iii. Reconciliation of Pension Scheme Asset / (Liability)

	1 January 2011 to 31 March 2012 £m	1 November 2010 to 31 December 2010 £m
1. Opening Pension Scheme Liability	(0.008)	(0.573)
2. Employer's share of pension cost	(0.277)	(0.050)
3. Employer contributions	1.731	0.039
4. LCR indemnity adjustment	(1.454)	0.584
5. Total Gain/(Loss) recognised in STRGL	0.050	(0.008)
6. Closing Pension Scheme Asset / (Liability)	0.042	(0.008)

The full liability at December 2010 was not recognised as London & Continental Railways (LCR) had provided an indemnity to HS1 whereby additional funds would be paid into the Section to ensure a fully funded position as at 1 November 2010. Included in the £1.73m employer contribution in the 15 months ended 31 March 2012 was £1.45m of top-up funds received from LCR.

iv. Disclosed pension cost

	1 January 2011 to 31 March 2012 £m	1 November 2010 to 31 December 2010 £m
1. Employer's share of Service Cost	0.338	0.049
2. Employer's share of Interest Cost	0.172	0.022
3. Employer's share of expected (return) on assets	(0.233)	(0.021)
4. Employer's share of pension expense	0.277	0.050

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16. Pensions (continued)**v. Reconciliation of return on assets**

	1 January 2011 to 31 March 2012 £m	1 November 2010 to 31 December 2010 £m
1. Expected return on Section assets	0.233	0.021
2. Gain on Section assets	0.553	0.045
3. Actual return on Section assets	0.786	0.066

vi. Reconciliation of Section liabilities

	1 January 2011 to 31 March 2012 £m	1 November 2010 to 31 December 2010 £m
1. Opening Section liabilities	3.943	3.738
2. Service Cost	0.561	0.081
3. Interest Cost	0.287	0.037
4. Loss on Section liabilities	1.310	0.088
5. Actual benefit payments	(0.211)	(0.001)
6. Closing Section liabilities	5.890	3.943

vii. Reconciliation of value of assets

	1 January 2011 to 31 March 2012 £m	1 November 2010 to 31 December 2010 £m
1. Opening value of Section assets	2.957	2.783
2. Expected return on assets	0.388	0.035
3. Gain on assets	0.922	0.075
4. Employer contributions	1.731	0.039
5. Employee contributions	0.173	0.026
6. Actual benefit payments	(0.211)	(0.001)
7. Closing value of Section assets	5.960	2.957

The two tables above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures, which reflect the Company's share of the costs and liabilities associated with the Section.

viii. Statement of total recognised gains and losses (STRGL)

Period ended	31 March 2012 £m	31 December 2010 £m
1. Loss on Section liabilities	1.373	0.053
2. Gain on assets	(0.553)	(0.045)
3. LCR contribution adjustment ¹	(0.870)	-
3. Total (Gain)/Loss recognised in the STRGL	(0.05)	0.008

1 – see net of LCR indemnity adjustment above

Cumulatively as at 31 March 2012, £42k of actuarial gain has been recognised through the STRGL.

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16. Pensions (continued)**ix. Historical Information**

Period ended	31/3/12 £m	31/12/10 £m
1. Section liabilities	5.890	3.943
2. Assets	5.960	2.957
3. Surplus/(deficit)	0.070	(0.986)
4. Experience loss (liabilities)	0.998	-
5. Experience (gain) (assets)	(0.553)	(0.045)

17. Commitments

Annual payments under operating leases as shown are:

	31 March 2012		31 December 2010	
	Land and buildings £'000	Plant and equipment £'000	Land and buildings £'000	Plant and equipment £'000
Less than 1 year	179	6	-	6
1 to 5 years	67	-	246	-
	246	6	246	6

18. Directors' interests

There were no transactions with Directors during the period other than as disclosed in Note 5.

19. Parent undertaking and controlling parties

The Company's immediate parent undertaking at 31 March 2012 was Helix Acquisition Limited, a company registered in England and Wales and the Company's ultimate parent undertaking was Helix Holdings Limited, a company registered in Jersey.

The largest and smallest group in which its results are consolidated is Helix Holdings Limited.

The registered office of the Company:
73 Collier Street
London
N1 9BE

20. Related party transactions

Transactions with related parties and balances at 31 March 2012 comprise:

	Recognised income / (expenditure) £m	Amounts due (to) £m
Helix Acquisition Limited	(69.0)	(27.6)
Helix Acquisition Limited - Loan	0.0	(567.1)
Helix Holdings Limited	0.0	0.2

Helix Acquisition Limited is the Company's parent undertaking and Helix Holdings Limited is the Company's ultimate parent company.

HS1 Limited

Directors' Report and Financial Statements
Year ended 31 December 2010

Company Registration No. 03539665



HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Officers and Registered Office

Directors

C Thomazi
D Pickett
R Byers
S Sherman
P Busslinger
O Steedman

Registered Office

73 Collier Street
London
N1 9BE

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Directors' Report

The Directors present their report, together with the audited financial statements of the Company, for the year to 31 December 2010.

Results and dividends

The net profit after exceptional items for the year was £172.0m (2009 loss: £2,418.5m) and this amount has been transferred to (2009: from) reserves. The Directors do not propose to pay a dividend (2009: £nil).

Principal activities, review of business and future developments

The principal activity of the Company continues to be concession holder of High Speed 1 ("HS1"), the United Kingdom's first high speed railway. The delivery of operations and maintenance responsibilities is achieved principally through contracts with Network Rail (CTRL) Limited ('NRCTRL') who operate, manage and maintain HS1 infrastructure and stations. During the year, the first full year of domestic services, HS1 has continued to show excellent performance with average delays per train path during the year arising from operations of less than 7 seconds.

During the year certain key agreements and contracts have been amended, and in November the sale of the company was completed. Key changes were:

- The Company entered into a supplemental agreement to the concession agreement on 16 July 2010 with the Secretary of State. The amended concession agreement expires 31 December 2040, a reduction from the previous term which ran until 31 December 2047.
- On 28 September 2010 CTRL (UK) Limited. "CTRL(UK)", a wholly owned undertaking at that time reduced its share capital by £33.0m satisfied by a reduction in the debt due from the Company.
- On 12 October 2010 the company sold all its shareholding in CTRL(UK) to its immediate parent undertaking London & Continental Railways Limited, "LCR".
- On 1 November the Trustees of the Railways Pension Scheme set up a new section of the Scheme for the employees of the Company. Past benefits accrued under the Eurostar section of the scheme will be transferred to the HS1 section during 2011.
- On 18 November 2010 LCR waived £461.2m of the loan balance due from the Company
- On 18 November 2010 the Articles of Association of the company were amended and a new class of shares designated B Shares were created. The existing issued shares were re designated as A Shares.
- On 18 November 2010 LCR sold their entire holding of A Shares it previously held to Helix Acquisition Limited. The ultimate holding company is Helix Holdings Limited, a company incorporated in Jersey and a joint venture between OMERS Administration Corporation, "OMERS" and Ontario Teachers' Pension Plan Board, "Teachers".
- On 18 November 2010 the company repaid all the outstanding debts due to European Investment Bank, "EIB", Kreditanstalt für Wiederaufbau. "KfW", and LCR funded by new Term Loans of £1.31 bn, inter-company debt and an overdraft facility.
- On 18 November 2010 the company issued 10 B Shares for a total subscription price of £2,000
- Between 23 November and 17 December 2010 the Company entered into interest swap agreements the effect of which was to fix the floating interest rate of £0.98bn of the term loans at an average rate of 4.15%.

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Whilst continuing to deliver a safe and high performing infrastructure through management of its contractors the key focus of the business in the coming year is to grow retail and other commercial revenue streams, preparation for the Olympics in 2012 and putting in place the building blocks to facilitate additional international train paths in future years.

Directors and their interests

The Directors who served during the year and to the date of approval of the financial statements were as follows:

C Thomazi	Appointed 18 November 2010
D Pickett	Appointed 18 November 2010
R Byers	Appointed 18 November 2010
S Sherman	Appointed 18 November 2010
P Busslinger	Appointed 18 November 2010
K Kerr	Appointed 18 November 2010, resigned 17 February 2011
O Steedman	Appointed 17 February 2011
P M Chapman	Resigned 18 November 2010
J Curley	Resigned 18 November 2010
G G Gunn	Resigned 18 November 2010
C H Hamill	Resigned 18 November 2010
T J Smart	Resigned 18 November 2010
C D Kaberry	Resigned 7 June 2010

None of the Directors who served during the year had any interest in the shares of this or any other group company.

Employees

The Company is a non-discriminatory employer operating an equal opportunities policy, committed to the employment and promotion of all staff on the basis of merit, without regard to race, colour, sex, marital status or disability. Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

Health and safety

The Company's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all associated staff. The Company has a commitment to continually improve its performance in the areas of health, safety and the environment.

The Company actively supports NRCTRL and its contractors in its promotion of strict adherence to all safety standards to ensure a safe environment for all parties using the railway including train operators and their passengers and staff and customers of the facilities in and adjacent to the stations.

Environment

The carbon footprint for HS1 (excluding OHL traction power) for April 2009 - March 2010 was established as 28.0 million tCO₂. The increase of c 16% on the previous year is against the backdrop of the commencement of domestic train service operation which has seen train numbers more than triple and a significant increase in passenger traffic.

During the year HS1 registered as a participant in the Carbon Reduction Commitment Scheme. This is a legal requirement which requires medium level energy consumers to report their annual power consumption, with a view to incentivising them to reduce power consumption. Although the Government is now carrying out further consultation (following pressure for its simplification) the first

HS1 LIMITED

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year of the scheme has commenced and the first purchase of allowances will be made retrospectively in spring 2012 for the period 2011-12.

The waste and recycling contract was retendered during the year and waste recycling rates at St Pancras are now generally exceeding the 65% recycling target, representing a 20% increase since the last year.

The findings from the route wide archaeological investigations that were undertaken during the construction of HS1 will be published in 2011.

Creditor payment policy

The Company agrees terms of payment with suppliers and contractors in advance and abides by those terms of payment.

At 31 December the Company's creditor days compared with the value of invoices received in the year was 43 days. The balance at 31 December 2010 included a quarterly payment to NR(CTRL) of £11.9m and a VAT payment of £10.6m both of which were due for payment in the first week of 2011 and were both settled on the due date.

Disclosure of information to auditors

Each of the Directors at the balance sheet date confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

BY ORDER OF THE BOARD



14 April 2011

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of HS1 Limited

We have audited the financial statements of HS1 Limited for the year ended 31 December 2010 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
 Chartered Accountants
 15 Canada Square, London, E14 5GL

14 April 2011

HS1 LIMITED

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Profit and Loss Account

For the year to 31 December 2010

	Note	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Turnover	2	262.7	388.3
Operating expenditure	3		
Impairment of fixed assets		-	(2,557.3)
Other operating expenditure		(182.9)	(232.5)
Operating profit / (loss) on ordinary activities before interest		79.8	(2,401.5)
Interest payable	4	(174.9)	(88.8)
Interest receivable	4	94.5	70.4
(Loss) on activities before taxation		(0.6)	(2,419.9)
Taxation	6	172.6	1.4
Profit / (loss) for the financial year	14	172.0	(2,418.5)

All activities of the Company relate to continuing operations. No activities were discontinued during the year.

There is no difference between the reported profit and the historical cost profit and loss and accordingly no statement of historical profits and losses has been presented.

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Statement of Total Recognised Gains and Losses for the year ended 31 December 2010

Note	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Profit / (loss) for the financial year	172.0	(2,418.5)
Capital contribution from LCR	461.2	-
Capital contributions from the Secretary of State for Transport	58.1	1,412.2
Pension deficit	-	-
Total recognised gains and losses for the year	691.3	(1,006.3)

Capital contribution from LCR

On 18 November 2010 LCR, the then parent undertaking, waived £461.2m of its loan balance receivable from the company.

Capital contributions from the Secretary of State for Transport

Capital contributions represents amounts paid by the Secretary of State to service the Company's bank debt, of £58.1m (2009: £25.4m together with the outstanding deemed loan obligations due to CTRL Section 1 Finance plc at date of assumption by the Secretary of State, 7 June 2009, of £1,386.8m). Following the sale of the Company no further contributions will be received.

Pension

During the year the Company contributed to the "Eurostar Shared Cost Section" of the Railways Pension Scheme ("RPS"), until 31st October and then to the "HS1 Shared Cost Section" from 1st November. The RPS provides defined benefits, based on final pensionable earnings, to employees of the Company. The assets of the funded scheme are held separately from those of the Company, being invested in managed funds.

The RPS is a multi-employer scheme and historically the Company did not have information available to be able to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, and therefore, as required by FRS 17 'Retirement Benefits', accounted for the scheme as if it were a defined contribution scheme during 2009. As a result of the sale of the company and establishment of a separate HS1 section further information became available which allowed for the identification of the Company's underlying assets and liabilities of the scheme on a consistent and reasonable basis

Based on the information available a deficit of £8,000 is recognised in the Balance Sheet at this date and in the Statement of Total Recognised Gains and Losses for the year (note 17).

HS1 LIMITED

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Reconciliation of movement in shareholder's funds

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Opening shareholder's funds	(945.7)	60.6
Profit / (loss) / profit for the financial year	172.0	(2,418.5)
Capital contributions from Secretary of State	58.1	1,412.2
Capital contribution from LCR	461.2	-
Closing shareholder's (deficit) / funds	(254.4)	(945.7)

HS1 LIMITED

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Balance Sheet

As at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
FIXED ASSETS			
Tangible assets	7	2,935.2	3,004.0
Investment	8	-	33.0
		<u>2,935.2</u>	<u>3,037.0</u>
CURRENT ASSETS			
Stocks		0.3	8.2
Debtors : amounts falling due within one year	9	17.5	29.9
Debtors : amounts falling due after more than one year	9	188.0	2.9
Total debtors		205.5	32.8
Cash at bank and in hand		15.7	74.7
		<u>221.5</u>	<u>115.7</u>
CREDITORS : amounts falling due within one year	10	(143.9)	(193.9)
NET CURRENT ASSETS / (LIABILITIES)		<u>77.6</u>	<u>(78.2)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,012.8	2,958.8
CREDITORS : amounts falling due after more than one year	11	(3,243.8)	(3,898.5)
Provisions	12	(23.4)	(6.0)
NET (LIABILITIES)		<u>(254.4)</u>	<u>(945.7)</u>
CAPITAL AND RESERVES			
Called up share capital	13	-	-
Profit and loss account	14	(254.4)	(945.7)
EQUITY SHAREHOLDER'S (DEFICIT)		<u>(254.4)</u>	<u>(945.7)</u>

These financial statements were approved by the Board of Directors on 14 April 2011 and are signed on its behalf by:

Director

HS1 LIMITED

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CASH FLOW STATEMENT

For the year to 31 December 2010

	Note	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Net cash inflow from operating activities	15	129.6	230.4
Returns on investments and servicing of finance			
Interest received		0.3	51.4
Interest paid		(158.2)	(72.9)
Interest element of finance lease rental		(16.6)	(16.1)
Net cash (outflow) from returns on investment and servicing of finance		(174.5)	(37.6)
Taxation			
Corporation tax received		-	1.4
Cash flow (outflow) / inflow before financing		(44.9)	194.2
Financing			
Repayment of LCR parent undertaking debt		(1,079.6)	(189.8)
Repayment of old bank debt		(828.6)	(14.3)
Cash inflow from new bank debt		1,283.6	-
Cash inflow from Helix parent undertaking debt		552.4	-
Capital contributions from DFT		58.1	25.4
Net cash inflow / (outflow) from financing		(14.1)	(178.7)
(Decrease) / increase in cash in the year		(59.0)	15.5

HS1 LIMITED

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Notes to the Accounts

Year to 31 December 2010

1. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern

At 31 December 2010, the Company had net liabilities and significant financial commitments. Having due regard to the availability of working capital and facilities under the loan agreement with the parent undertaking the directors are confident that the company has sufficient resources to meet its liabilities. The financial statements have accordingly been prepared on a going concern basis.

Turnover

Turnover, which excludes Value Added Tax, comprises amounts receivable from the train operators using HS1, retail outlets and car parks.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairments. A review of the impairment of fixed assets is carried out when the need for such a review is indicated.

The HS1 infrastructure will be returned to the Secretary of State in 2040 for nil proceeds, but with much of its useful economic life remaining. Accordingly, in line with FRS5 the Company has adopted an economic life of 125 years for land, buildings and structures. In order to reflect fully the cost to the Company of returning the residual value of the HS1 assets to SoS for no consideration, a concession charge is recognised in the Profit and Loss account.

Assets are depreciated over their estimated economic lives:

Land, buildings and structures	125 years	
Leased electrification assets	50 years	(length of lease)
Depot buildings	25 - 40 years	
Track and overhead catenary	25 years	
Signalling	15 years	
Plant	12 years	

Renewals are capitalised into fixed assets and depreciated over their useful lives as above. Income from renewals charges is recognised when earned and cash received into escrow in advance of expenditure is treated as other receivables.

Concession charge

A provision is made over the life of the HS1 concession for the estimated value of the grant of the HS1 concession, representing the residual value of the HS1 assets to be returned to SoS for nil consideration in 2040.

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Deferred taxation

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leases and financing arrangements

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within creditors. The interest element of the rental and maintenance obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Following the completion of the revised Operator Agreement with NRCTRL the railway related spares have been re-classified as Other Receivables.

Grants

Grants received from HM Government as contributions to the cost of construction have been treated as deferred income and are being released to the profit and loss account annually, against depreciation, over the expected lives of the relevant assets.

Pensions

Liabilities in respect of retirement and death benefits are provided for by payments to the HS1 Section of the Railways Pension Scheme, a defined benefit scheme, which provides benefits for all eligible employees. Prior to 31 October 2010 the payments were made to the Eurostar Section of the Railways Pension Scheme. It is expected employees' accrued benefits to 31 October 2010 will be transferred to the HS1 Section in 2011.

Derivative financial instruments

Derivative financial instruments are recognised at cost with no fair value adjustments being recognised in the accounts.

2. Turnover

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
HS1	262.1	384.2
Long term contracts	0.6	4.1
	<u>262.7</u>	<u>388.3</u>

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

3. Operating expenditure

- a) The average number of staff employed per month by the Company (including executive directors) during the year was 32 (2009: 29). All staff were employed in the management of HS1. Their aggregate remuneration comprised:

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Wages and salaries	2.7	1.8
Social security costs	0.3	0.2
Pension scheme	0.4	0.2
	3.4	2.2

- b) The operating expenditure includes :

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Impairment of HS1 asset	-	3,650.3
Accelerated amortisation of Deferred Government Grants	-	(1,093.0)
Depreciation – owned assets	67.3	137.7
Depreciation – leased assets	1.5	2.2
Amortisation of grants and debt set up costs	(29.9)	(50.6)
Concession charge	16.4	5.9
	£'000	£'000
Auditors remuneration:		
Audit fee for these financial statements	50	40
Audit fee borne on behalf of fellow Helix subsidiary undertaking	2	-
Audit fee borne on behalf of fellow LCR subsidiary undertaking	-	1
Other services provided by auditors	2	15
	54	56

Impairment of HS1 asset and accelerated amortisation of Deferred Government Grants represents the diminution in value of the HS1 asset and underlying grants following the entering of the new concession agreement and access agreements on 17 August 2009.

HS1 LIMITED

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4. Interest

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Interest payable		
Commercial bank debt interest	147.3	44.5
Finance lease interest	21.0	19.7
Other interest payable	6.6	1.5
Interest payable to CTRL Section 1 Finance plc	-	23.1
	<u>174.9</u>	<u>88.8</u>
Interest receivable		
Amortisation of fair value adjustment to debt instruments	94.2	15.7
Other interest receivable	0.3	0.2
Indexation adjustment of CTRL Section 1 Finance plc debt	-	3.3
Interest hedge	-	51.2
	<u>94.5</u>	<u>70.4</u>

5. Directors' emoluments

Directors' emoluments including charges for the services of the Directors were:

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Emoluments	696	583
Pension	116	58
Total	<u>812</u>	<u>641</u>
Amount in respect of the highest paid Director		
Emoluments	328	199
Pension	33	17
Total	<u>361</u>	<u>216</u>

HS1 LIMITED

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6. Taxation	Year to 31 December 2010 £m	Year to 31 December 2009 £m
UK corporation tax		
Tax (credit) / charge on profit on ordinary activities	(172.6)	(1.4)
Current tax reconciliation		
Profit / (loss) / profit on ordinary activities before tax	0.6	(2,419.9)
Current tax at 28.0%	0.1	(677.6)
Effects of :		
Deferred tax asset not previously recognised	(153.2)	-
Reduction in tax rate	6.4	-
Timing differences	(7.4)	(34.1)
Losses carried forward	(18.4)	-
Impairment of assets		711.7
Other	(0.1)	-
Adjustment in respect of previous years		
Other	-	(1.4)
Total current tax charge (see above)	(172.6)	(1.4)

The movement on deferred tax asset had not previously been recognised as it was not considered realisable in the foreseeable future due to the availability of losses elsewhere within the LCR group. Following the change of ownership during the year it is now anticipated that the deferred asset will be utilised in the foreseeable future against future taxable profits. The movement on the year is outlined below.

	Timing Differences £m	Trading Losses £m	Total £m
Balance at 1 January now recognised	122.2	31.0	153.2
Movement in the year	7.4	18.4	25.8
Reduction in future years tax rate	(4.7)	(1.7)	(6.4)
At 31 December 2010	124.9	47.7	172.6

The deferred asset has been disclosed	31 December 2010 £m	31 December 2009 £m
Debtors falling due within one year	0.5	-
Debtors falling due after more than one year	172.1	-
	172.6	-

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

7. Tangible assets

	Land and buildings £m	Plant & equipment £m	Total £m
Cost :			
At 1 January 2010	4,771.8	2,343.1	7,114.9
At 31 December 2010	<u>4,771.8</u>	<u>2,343.1</u>	<u>7,114.9</u>
Depreciation :			
At 1 January 2010	2,661.0	1,449.9	4,110.9
Depreciation charged in year	18.5	50.3	68.8
At 31 December 2010	<u>2,679.5</u>	<u>1,500.2</u>	<u>4,179.7</u>
Net book value :			
31 December 2010	<u>2,092.3</u>	<u>842.9</u>	<u>2,935.2</u>
31 December 2009	<u>2,110.8</u>	<u>893.2</u>	<u>3,004.0</u>

Plant & equipment includes assets with a net book value of £67.2m held under finance leases (2009 – £68.7).

An impairment review of fixed assets was carried out at 31 December 2010 using a pre tax discount rate of 9.4% representing the estimated weighted average cost of capital of quoted companies with similar activities and risks (2009: 10%). The directors are satisfied there was no impairment at that date.

At 31 December 2010 the depreciated carrying value of the HS1 assets above, net of deferred Government grants (notes 10 and 11) was £1,647.1 million (31 December 2009 £1,685.4m).

8. Investment

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
At 1 January	33.0	33.0
Capital reduction	(33.0)	-
Disposal during the year	-	-
At 31 December	<u>0.0</u>	<u>33.0</u>

The company sold its investment in CTRL(UK) Limited to LCR during the year.

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

9. Debtors

Amounts falling due within one year	31 December	31 December
	2010	2009
	£m	£m
Amount receivable on a long term contract	-	6.0
Trade debtors	3.4	4.5
Deferred tax asset	0.5	-
Other debtors	4.0	12.6
Prepayments and accrued income, including grants	9.6	6.8
	<u>17.5</u>	<u>29.9</u>
Amounts falling after more than one year	31 December	31 December
	2010	2009
	£m	£m
Other receivables	15.9	2.4
Deferred tax asset	172.1	-
Prepayments and accrued income	-	0.5
	<u>188.0</u>	<u>2.9</u>

Other receivables represent cash amounts held in escrow to fund certain future renewals and replacements, together with railway related spares where the risk of ownership lies with NR(CTRL). Access to the escrow funds is restricted under the terms of the revised concession agreement.

10. Creditors : amounts falling due within one year	31 December	31 December
	2010	2009
	£m	£m
Trade creditors	5.4	0.9
Amount owed to parent undertaking	3.0	-
Amounts owed to fellow subsidiary undertakings	-	5.6
Deferred Government Grants	30.4	30.2
Bank loans	2.6	34.3
Other creditors	8.6	7.9
Accruals and deferred income	93.9	115.0
	<u>143.9</u>	<u>193.9</u>

Bank loans are shown net of debt set up costs

Bank loans	31 December	31 December
	2010	2009
	£m	£m
Bank loans	7.4	34.3
Debt set up costs	(4.8)	-
	<u>2.6</u>	<u>34.3</u>

HS1 LIMITED

COMPANY REGISTRATION NO. 03539665

11. Creditors : amounts falling due after more than one year	31 December 2010 £m	31 December 2009 £m
Amount owed to Helix parent undertaking	552.4	-
Amount owed to LCR parent undertaking	-	1,540.8
Amount owed to subsidiary undertaking	-	33.0
Deferred Government Grants	1,257.7	1,288.4
Bank loans	1,281.4	888.5
Accruals and deferred income	0.7	0.6
Leasing obligations	151.6	147.2
	<u>3,243.8</u>	<u>3,898.5</u>

Bank loans are shown net of debt set up costs

	31 December 2010 £m	31 December 2009 £m
Bank loans	1,302.6	888.5
Debt set up costs	(21.2)	-
	<u>1,281.4</u>	<u>88.5</u>

Between 23 November and 17 December 2010 the Company entered into interest swap agreements the effect of which was to fix the floating interest rate of £0.98bn of the term loans at an average rate of 4.15%.

The market value of the derivatives at 31 December 2010 was not materially different from the amount included in these financial statements. The swaps are accounted for at cost in line with the Company's accounting policy.

Finance lease arrangements for the provision of electrical distribution assets for HS1 mature over a 50 year period.

12. Provisions	Concession Charge £m	Total £m
Balance at 1 January 2010	6.0	6.0
Increase in provision	17.4	17.4
Balance at 31 December 2010	<u>23.4</u>	<u>23.4</u>

13. Share capital

Issued, called up and fully paid :	31 December 2010 £	31 December 2009 £
2 A shares of £1 each	2	2
10 B shares of £1 each	10	-
	<u>12</u>	<u>2</u>

HS1 LIMITED

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Share premium account

10 B Shares issued at a premium of £19.90	1,990	-
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The holders of A shares carry all voting rights with the exception of the rights to appoint Directors which are held by holders of the B shares

14. Profit and loss account	31 December 2010 £m	31 December 2009 £m
Balance brought forward	(945.7)	60.6
Profit / (loss) for the year	172.0	(2,418.5)
LCR loan waiver	461.2	-
Capital contributions from the Secretary of State for Transport	58.1	1,412.2
Balance carried forward	<u>(254.4)</u>	<u>(945.7)</u>

LCR loan waiver is the amount of inter-company loan waived 18 November 2010.

Capital contributions represents amounts paid by the Secretary of State to service the Company's bank debt, of £58.1m (2009: £25.4m together with the outstanding deemed loan obligations due to CTRL Section 1 Finance plc at date of assumption by the Secretary of State, 7 June 2009, of £1,386.8m).

15. Notes to the cash flow statement

a) Reconciliation of operating result to net cash flow from operating activities:

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
Operating profit / (loss)	79.8	(2,401.5)
Impairment of HS1 asset	-	3,650.3
Accelerated amortisation of Deferred Government Grants	-	(1,093.0)
Depreciation – owned assets	67.3	137.7
Depreciation – leased assets	1.5	2.2
Amortisation of grants and debt set up costs	(29.9)	(50.6)
Decrease / (increase) in stocks	7.9	(0.6)
(Increase) / decrease in debtors	(0.1)	64.1
(Decrease) in creditors and deferred income	(14.3)	(84.2)
Increase in provisions	17.4	6.0
Net cash inflow from operating activities	<u>129.6</u>	<u>230.4</u>

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b) Reconciliation of net cash flow to movement in net debt

	Year to 31 December 2010 £m	Year to 31 December 2009 £m
(Decrease) / increase in cash in the year	(59.0)	15.5
Cash inflow from change in debt	72.2	204.0
Change in net debt arising from cash flows	13.2	219.5
Change in net debt arising from non-cash movements	550.5	1,405.9
Movement in net debt in year	563.7	1,625.4
Net debt at 1 January	(2,536.1)	(4,161.5)
Net debt at 31 December	(1,972.4)	(2,536.1)

c) Analysis of changes in net debt

	1 January 2010 £m	Cash flow £m	Non-cash Movement £m	31 December 2010 £m
Cash at Bank and in hand	74.7	(59.0)	-	15.7
Commercial debt under 1 year	(34.3)	18.5	13.2	(2.6)
Commercial debt over 1 year	(888.5)	(473.5)	80.5	(1,281.5)
Amount owed to Helix parent undertaking	-	(552.4)	-	(552.4)
Amount owed to LCR parent undertaking	(1,540.8)	1,079.6	461.2	-
Finance leases (capital element)	(147.2)	-	(4.4)	(151.6)
Net debt	(2,536.1)	13.2	550.5	(1,972.4)

16. Contingencies

The Company is from time to time party to or affected by legal proceedings and claims and enters into guarantees, financing arrangements and commitments which are in the ordinary course of business. It is not possible to predict with certainty the results of these claims, but the Directors, taking into account counter-claims, claims against third parties, provisions in the accounts, and having due regard to professional advice do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a materially adverse effect upon the Company's financial position. Contingent liabilities relating to these potential contractual obligations are estimated to be minimal.

HS1 LIMITED

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17. Pensions

Background

- a) On 1 November a new HS1 Section of the Railways Pension Scheme was established and from that date the company contributes to the scheme. Prior to that date the company contributed to the Eurostar Section of the Railways Pension Scheme. Both sections of the scheme provide defined benefits, based on final pensionable earnings, to employees.
- b) The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the period are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit.
- c) Employer contributions for the period ending 31 December 2010 are assumed to be 15.84% of Section Pay. This is expected to continue until a new formal valuation is completed.
- d) At a Board meeting on 17th February 2011 the directors resolved to close the existing scheme to new entrants and set up a separate defined contribution scheme from a date to be determined, expected to be in the first half of 2011.
- e) As part of the restructuring and sale of HS1 the previous owner, LCR, has given an indemnity to the company that will effectively lead to the HS1 section being fully funded as at 1st November 2010. Discussions between LCR, HS1 and the Trustee of the Railways Pension as to the final top-up value are continuing
- f) Based on a funding level of 84.2% on a standard covenant basis it is expected that during 2011 there will be a share-of-fund transfer from the Eurostar section of £2.783m in respect of the active members. On the basis of the LCR indemnity and as a result of the analysis that has been carried out to date the figures below are presented as though the transfer has already occurred.

Membership Data

	31 December 2010	1 November 2010
Active members		
Number	26	25
Payroll (£m)	1.787	
Average age	50.1	
Deferred members		
Number	Nil	Nil
Pensioner members (incl. dependants)		
Number	Nil	Nil

Summary of assumptions

The figures have been prepared with the assistance of the Company's actuarial advisers Towers Watson with the following key assumptions:

	31 December 10	1 November 10
	%pa	%pa
1 Discount rate	5.5	5.3
2 Price inflation (RPI)	3.5	3.2
3 Increases to deferred pensions (CPI)	3.0	2.7
4 Pension increases (CPI)	3.0	2.7
5 Salary increases*	4.75	4.45

HS1 LIMITED

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6 Expected return on Section assets 7.4

**plus 0.4% pa promotional salary scale*

	Value at 31 December 2010 £m	Long Term rate of return expected on 1 November 2010 % pa	Value at 1 November 2010 £m
Equities	2.587	7.6	2.491
Government bonds	0.075	4.0	0.072
Non-Government bonds	0.133	5.2	0.064
Property	0.159	7.1	0.156
Other assets	0.003	3.4	-
Total asset value	2.957	7.4	2.783

Assumed average expectation of life in years at age 65

		31 December 2010	1 November 2010
Male currently age 65	Pension under £8,500 or pensionable pay under £30,000 pa	19.8	19.8
	Others	21.5	21.5
Male currently age 45	Pension under £8,500 or pensionable pay under £30,000 pa	22.2	22.2
	Others	23.7	23.7
Female currently age 65	Pension under £3,000 or pensionable pay under £30,000 pa	21.7	21.7
	Others	22.7	22.7
Female currently age 45	Pension under £3,000 or pensionable pay under £30,000 pa	23.2	23.2
	Others	24.2	24.2

Pension Scheme (Liability) / Asset at end of period

	Period ended 31 December 2010 £m	1 November 2010 £m
Section Liabilities at end of period	3.943	3.738
Value of assets at end of period	2.957	2.783
(Surplus) / deficit at end of period	0.986	0.955
Adjustment for the members' share of (surplus) / deficit	0.394	0.382
Irrecoverable surplus	-	-
Pension Scheme (Liability)/Asset at end of period	(0.592)	(0.573)*

**Note that LCR has provided an indemnity to HS1 whereby additional funds will be paid into the Section to ensure a fully funded position as at 1st November 2010*

HS1 LIMITED

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Reconciliation of Pension Scheme (Liability) / Asset

	Period ended 31 December 2010
	£m
Opening Pension Scheme (Liability) / Asset	(0.573)
Employer's share of pension (cost) / income	(0.050)
Employer contributions	0.039
Total Gain / (Loss) recognised in STRGL	(0.008)
Closing Pension Scheme (Liability) / Asset	(0.592)

Disclosed pension cost

	Period ended 31 December 2010
	£m
Employer's share of Service Cost	0.049
Employer's share of Interest Cost	0.022
Employer's share of expected (return) on assets	(0.021)
Employer's share of pension cost/(income)	0.050
(Gain) / Loss due to effect of limit on recoverable assets	-
Employer's share of pension cost/(income)	0.050

Reconciliation of return on assets

	Period ended 31 December 2010
	£m
Expected return on Section assets	0.021
Gain / (Loss) on Section assets	0.045
Actual return on Section assets	0.066

Reconciliation of Section liabilities

	Period ended 31 December 2010
	£m
Opening Section liabilities	3.738
Service Cost	0.081
Interest Cost	0.037
Section amendment	-
(Gain) / Loss on Section liabilities	0.088
Actual benefit payments	(0.001)
Settlement / curtailment	-
Closing Section liabilities	3.943

Reconciliation of value of assets

	Period ended 31 December 2010
	£m
Opening value of Section assets	2.783
Expected return on assets	0.035
Gain / (Loss) on assets	0.075
Employer contributions	0.039
Employee contributions	0.026
Actual benefit payments	(0.001)
Settlement / curtailment	-
Closing value of Section assets	2.957

HS1 LIMITED

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The two tables above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures, which reflect the Company's share of the costs and liabilities associated with the Section.

Statement of total recognised gains and losses (STRGL)

	Period ended 31 December 2010 £m
Gain / (Loss) on Section liabilities	0.053
Gain / (Loss) on assets	(0.045)
Total (Gain) / Loss recognised in the STRGL	0.008

18. Commitments

Annual payments under operating leases as shown are:

	31 December 2010		31 December 2009	
	Land and buildings £'000	Plant and equipment £'000	Land and buildings £'000	Plant and equipment £'000
Less than 1 year	-	6	-	6
1 to 5 years	246	-	246	-
	<u>246</u>	<u>6</u>	<u>246</u>	<u>6</u>

19. Directors' interests

There were no transactions with Directors during the year.

20. Parent undertaking and controlling parties

The Company's immediate parent undertaking at 31 December 2010 was Helix Acquisition Limited, a company registered in England and Wales and the Company's ultimate parent undertaking is Helix Holdings Limited, a company registered in Jersey.

The registered office of the Company:

73 Collier Street
London
N1 9BE

HS1 LIMITED

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21. Related party transactions

As stated in the Directors' Report the Company's parent undertaking until 18 November 2010 was LCR. LCR together with its ultimate parent, Department for Transport, and its subsidiary undertakings were, until that date, related parties.

Transactions with related parties prior to 18 November 2010 comprise:

	Recognised income / (expenditure) £m
LCR	(9.2)
LCR debt waiver	461.2
Eurostar International Limited	73.7
Channel Tunnel Rail Link Limited	(0.3)
Department for Transport	(0.1)
Department for Transport capital contribution	58.1

Transactions with related parties after 18 November 2010 and balances at 31 December 2010 comprise:

	Recognised income / (expenditure) £m	Amounts due (to) £m
Helix Acquisition Limited	(6.5)	(3.0)
Helix Acquisition Limited - Loan	-	(552.4)

HS1 Limited

Unaudited Interim Report and Accounts
30 September 2012



Operating review

- ***Review of the period and recent developments***

The principal activity of the Company as the concession holder until 31 December 2040 of High Speed 1 is the supervision of Network Rail (High Speed) Limited (“NR(HS)”) who operate, manage and maintain HS1 infrastructure and stations.

The ultimate holding company is Helix Holdings Limited, a company incorporated in Jersey and a joint venture between OMERS Administration Corporation and Ontario Teachers’ Pension Plan Board.

During the period both the London 2012 Olympics and Paralympics were held with the HS1 asset being a crucial element of the transportation links for the games. There were no significant problems with the asset performance and operations during this period.

Operationally the railway continues to perform well with the moving annual average delay per train 9.8 seconds.

- ***Outlook***

In all areas of the Company, staff and management aim to ensure the safe and efficient running of HS1, and through management of key contractors ensure the availability of the railway is maintained at it’s current high levels.

The company is currently reviewing its present financing arrangements for the remainder of the concession period.

Profit and Loss Account

for the 6 Months to 30 September 2012

	Note	6 months to 30 Sept. 2012 £m	6 months to 30 June 2011 £m	15 months to 31 March 2012 £m
Turnover	2	144.7	129.8	340.6
Operating expenditure				
Reversal of impairment of fixed assets		-	-	527.5
Other operating expenditure	3	(107.1)	(92.6)	(234.3)
Operating profit on ordinary activities before interest				
		37.6	37.2	633.8
Interest payable	4	(72.1)	(64.1)	(172.0)
Interest receivable		-	-	0.3
(Loss) / profit on activities before taxation				
		(34.5)	(26.9)	462.1
Taxation		6.2	10.4	58.6
(Loss) / profit for the period transferred (from) / to reserves				
		(40.7)	(37.3)	403.5

All activities of the Company relate to continuing operations. No activities were discontinued during the period.

There is no difference between the profit as reported and the historical cost profit. Accordingly no statement of historical profit has been prepared.

Balance Sheet

as at 30 September 2012

	Note	30 Sept 2012 £m	30 June 2011 £m	31 March 2012 £m
Fixed Assets				
Tangible Assets	6	3,574.9	2,807.3	3,658.6
		<u>3,574.9</u>	<u>2,807.3</u>	<u>3,658.6</u>
Current Assets				
Stocks		-	0.3	-
Debtors : amounts falling due within one year	7	21.2	14.2	16.0
Debtors : amounts falling due after one year	8	147.4	190.9	147.3
Cash at bank and in hand		43.7	56.6	57.9
		<u>212.3</u>	<u>262.0</u>	<u>221.2</u>
Creditors: amounts falling due within one year	9	(223.6)	(199.2)	(224.3)
Net current (liabilities) / assets		<u>(11.3)</u>	<u>62.8</u>	<u>(3.1)</u>
Total assets less current (liabilities) / assets		3,563.6	2,870.1	3,655.5
Creditors : amounts falling due over one year	10	(3,479.9)	(3,186.5)	(3,531.1)
Net assets / (liabilities)		<u>83.7</u>	<u>(316.4)</u>	<u>124.4</u>
Capital and reserves				
Called up share capital	11	-	-	-
Profit and loss account	12	83.7	(316.4)	124.4
Equity shareholder's surplus / (deficit)		<u>83.7</u>	<u>(316.4)</u>	<u>124.4</u>

Cash Flow Statement

for the 6 Months to 30 September 2012

	Note	6 months 30 Sept. 2012 £m	6 months 30 June 2011 £m	15 months 31 March 2012 £m
Net cash inflow from operating activities	13	90.7	75.3	195.0
Returns on investments and servicing of finance				
Interest received		-	-	0.3
Interest paid		(67.2)	(17.8)	(97.4)
Interest element of finance lease rental		(11.2)	(7.1)	(21.7)
Net cash (outflow) from returns on investment and servicing of finance		(78.4)	(24.9)	(118.8)
Cash flow inflow before financing		12.3	50.4	76.2
Financing				
Repayment of bank debt		(8.6)	-	(15.0)
Cash (outflow) to parent undertaking		(11.4)	-	(5.0)
Cash (outflow) into escrow accounts		(6.5)	(4.8)	(9.3)
Net cash (outflow) from financing		(26.5)	(4.8)	(29.3)
(Decrease) / increase in cash in the year		(14.2)	45.6	46.9

Notes to the interim accounts at 30 September 2012

1. Accounting policies

The accounts have been prepared using accounting policies consistent with those adopted for the 15 months to 31 March 2012.

2. Turnover

	6 months 30 Sept. 2012 £m	6 months 30 June 2011 £m	15 months 31 March 2012 £m
HS1	144.7	129.8	340.6
	<u>144.7</u>	<u>129.8</u>	<u>340.6</u>

3. Operating Expenditure

	6 months 30 Sept. 2012 £m	6 months 30 June 2011 £m	15 months 31 March 2012 £m
Depreciation	83.7	59.1	148.7
Amortisation of grants	(36.2)	(25.7)	(64.7)
Other operating expenditure	59.6	59.2	150.3
	<u>107.1</u>	<u>92.6</u>	<u>234.3</u>

4. Interest

	6 months 30 Sept. 2012 £m	6 months 30 June 2011 £m	15 months 31 March 2012 £m
Interest payable			
Commercial bank interest and derivatives	31.3	23.9	70.6
Amortisation of debt set up costs	2.4	2.5	6.1
Interest payable to parent undertaking	27.4	27.2	69.0
Finance lease interest	11.0	10.5	26.3
	<u>72.1</u>	<u>64.1</u>	<u>172.0</u>
Interest receivable			
Other interest receivable	-	-	0.3
	<u>-</u>	<u>-</u>	<u>0.3</u>

5. Taxation

	6 months 30 Sept. £m	6 months 30 June £m	15 months 31 March £m
Current tax	-	-	-
Deferred tax charge	6.2	10.4	58.6
Tax charge	<u>6.2</u>	<u>10.4</u>	<u>58.6</u>
Current tax reconciliation			
(Loss) /profit on ordinary activities before tax	<u>(34.5)</u>	<u>(26.9)</u>	<u>462.1</u>
Tax rate	24.0%	27.0%	26.4%
Tax thereon	(8.3)	(7.3)	122.0
Effects of:			
Timing differences on capital Allowances & depreciation	(3.3)	(7.7)	(33.8)
Unutilised tax losses carried forwards	8.9	0.4	41.7
Expenses not deductible for tax	2.7	-	6.7
Reversal of impairment of fixed assets	-	-	(133.4)
Other	-	-	(3.2)
	<u>-</u>	<u>-</u>	<u>-</u>

The movement on deferred tax in the period is outlined below:

	Timing Differences £m	Trading Losses £m	Total £m
At 1 April 2012	37.8	79.5	117.3
Reduction in future years tax rate	(1.1)	(3.7)	(4.8)
Movement in the period	(10.3)	8.9	(1.4)
At 30 September 2012	<u>26.4</u>	<u>84.7</u>	<u>111.1</u>

6. Tangible Assets

	Land and Buildings £m	Plant & Equipment £m	Total £m
Cost			
At 1 April 2012	4,771.8	2,343.1	7,114.9
Movement in period	-	-	-
At 30 Sept. 2012	<u>4,771.8</u>	<u>2,343.1</u>	<u>7,114.9</u>
Depreciation			
At 1 April 2012	2,154.8	1,301.5	3,456.3
Charged in period	54.0	29.7	83.7
At 30 Sept. 2012	<u>2,208.8</u>	<u>1,331.2</u>	<u>3,540.0</u>
Net book value at 30 Sept. 2012	<u>2,563.0</u>	<u>1,011.9</u>	<u>3,574.9</u>

7. Debtors: amounts falling due within one year

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
Trade debtors	14.4	12.2	8.4
Amount owed by parent undertakings	0.3	-	0.2
Deferred tax asset	-	-	-
Other debtors	4.9	-	0.7
Prepayments and accrued income	1.6	2.0	6.7
	<u>21.2</u>	<u>14.2</u>	<u>16.0</u>

8. Debtors: amounts falling due over one year

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
Other receivables	36.3	25.4	30.0
Deferred tax asset	111.1	165.5	117.3
	<u>147.4</u>	<u>190.9</u>	<u>147.3</u>

Other receivables represent cash amounts held in escrow to fund certain future renewals and replacements, together with railway related spares where the risk of ownership lies with NR (HS). Access to the escrow funds is restricted under the terms of the revised concession agreement.

9. Creditors: amounts falling due within one year

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
Trade creditors	2.9	3.9	0.2
Amounts owed to parent undertaking	14.7	10.4	27.6
Deferred Government Grants	72.5	51.8	69.7
Bank loans	18.7	15.0	17.4
Less : debt set up costs	(4.8)	(4.8)	(4.8)
Other creditors	10.9	11.2	9.8
Leasing obligations	18.4	17.6	18.4
Accruals and deferred income	90.3	94.1	86.0
	<u>223.6</u>	<u>199.2</u>	<u>224.3</u>

10. Creditors: amounts falling due over one year

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
Amount owed to parent undertaking	555.7	572.1	567.1
Deferred Government grants	1,498.7	1,181.2	1,537.7
Bank loans	1,272.7	1,296.9	1,281.7
Less : debt set up costs	(12.7)	(18.7)	(15.1)
Accruals and deferred income	0.6	0.6	0.6
Escrow deferred income	27.4	17.0	21.4
Leasing obligations	137.5	137.4	137.7
	<u>3,479.9</u>	<u>3,186.5</u>	<u>3,531.1</u>

11. Share capital

	30 Sept. 2012 £	30 June 2011 £	31 March 2012 £
Issued, called up and fully paid:			
990 A shares of £1 each	990	2	990
10 B shares of £1 each	10	10	10
	<u>1,000</u>	<u>12</u>	<u>1,000</u>
Share premium account			
10 B shares issued at a premium of £19.90	1,990	1,990	1,990

12. Profit and loss account

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
At 1 April 2012	124.4	(279.1)	(279.1)
(Loss) / profit for the period	(40.7)	(37.3)	403.5
At 30 Sept. 2012	<u>83.7</u>	<u>(316.4)</u>	<u>124.4</u>

13. Notes to the cash flow statement

a) Reconciliation of operating result to net cash flow from operating activities:

	6 months to 30 Sept. 2012 £m	6 months to 30 June 2011 £m	15 months to 31 March 2012 £m
Operating profit / (loss)	37.6	37.2	633.8
Depreciation	83.7	59.1	148.7
Reverse impairment – fixed assets	-	-	(940.9)
Reverse impairment – deferred Govt. grants	-	-	413.4
Amortisation of grants	(36.2)	(25.7)	(64.7)
Decrease / (increase) in stocks	-	-	0.3
(Increase) / decrease in debtors	(5.0)	2.8	0.9
Increase / (decrease) in creditors and deferred income	10.6	1.9	3.5
Net cash inflow from operating activities	<u>90.7</u>	<u>75.3</u>	<u>195.0</u>

b) Reconciliation of net cash flow to movement in net debt

	30 Sept. 2012 £m	30 June 2011 £m	31 March 2012 £m
(Decrease) / increase in cash in the year	(14.2)	45.6	46.9
Cash inflow from change in debt	31.0	10.5	41.7
Movement on escrow accounts	6.5	4.8	9.3
Change in net debt arising from cash flows	<u>23.3</u>	<u>60.9</u>	<u>97.9</u>
Change in net debt arising from non-cash movements	(14.0)	(38.0)	(56.2)
Movement in net debt in year	<u>9.3</u>	<u>22.9</u>	<u>41.7</u>
Net debt at 1 April	(1,923.2)	(1,964.9)	(1,964.9)
Net debt at 30 Sept	<u>(1,913.9)</u>	<u>(1,942.0)</u>	<u>(1,923.2)</u>

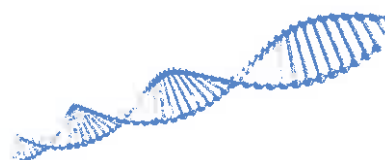
c) Analysis of changes in net debt

	1 April 2012 £m	Cash flow £m	Non-cash Movement £m	30 Sept. 2012 £m
Cash at Bank and in hand	57.9	(14.2)	-	43.7
Commercial debt under 1 year	(12.6)	8.6	(9.9)	(13.9)
Commercial debt over 1 year	(1,266.6)	-	6.6	(1,260.0)
Amount owed to parent undertaking	(567.1)	11.4	-	(555.7)
Finance leases (capital element)	(156.2)	11.0	(10.7)	(155.9)
Escrow accounts	21.4	6.5	-	27.9
Net debt	<u>(1,923.2)</u>	<u>23.3</u>	<u>(14.0)</u>	<u>(1,913.9)</u>

Helix Acquisition Limited

**Directors' Report and Financial Statements
Period from 3 November 2010 to 31 March
2012**

Company Registration No. 07428859



HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Officers and Registered Office

Directors

C Hood
J McManus
D Pickett
S Sherman
O Steedman
C Thomazi

General Counsel and Company Secretary

L Lazzeri

Registered Office

73 Collier Street
London
N1 9BE

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Directors' Report

The Directors present their report, together with the audited financial statements of the Company, for the period from incorporation, 3 November 2010 to 31 March 2012.

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

Results and dividends

The net loss for the period was £0.3m. The Directors do not propose to pay a dividend.

Principal activities, review of business and future developments

The Company is a holding Company for HS1 Limited which is the concession holder of High Speed 1, the United Kingdom's first high speed railway.

The Company was incorporated on 3 November 2010.

On 3 November 2010 the Company issued one A share and four B shares to Helix Bufferco Limited and three B shares to each of Borealis International Investments Corp and Shellecaque Corp. On 17 November 2010 the Company issued a further 989 A shares to Helix Bufferco Limited.

On 18 November 2010 the Company acquired the entire A shares of HS1 Limited financed by a £0.6 bn 9.75% loan from its immediate holding Company Helix Bufferco Limited, a £1.31bn bank loan facility and an overdraft facility.

Following the acquisition a £0.6bn 9.75% loan was made to HS1 Limited and the rights and obligations of the bank facilities were passed down to HS1.

On 18 November 2010 the Company subscribed to four B shares in HS1 Limited for a consideration of £800.

On 18 November 2010 the Company subscribed to two A shares and four B shares in CTRL (UK) Limited.

On 13 December 2011 the Company subscribed to 998 A shares in HS1 Limited for a consideration of £998.

The Directors do not anticipate any changes to activities of the Company in the foreseeable future.

Going concern

The Directors have considered the use of the going concern basis in the preparation of these financial statements in light of the current economic conditions and have concluded that this remains appropriate. More information is provided in note 1 to these financial statements.

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Directors' Report (continued)

Directors and their interests

The Directors who served during the period and to the date of approval of the financial statements were as follows:

C Thomazi	Appointed 11 November 2010
D Pickett	Appointed 11 November 2010
R Byers	Appointed 11 November 2010, resigned 14 April 2011
S Sherman	Appointed 11 November 2010
P Busslinger	Appointed 11 November 2010, resigned 16 February 2012
K Kerr	Appointed 3 November 2010, resigned 14 April 2011
P Manias	Appointed 3 November 2010, resigned 11 November 2010
O Steedman	Appointed 14 April 2011
C Hood	Appointed 14 April 2011
J McManus	Appointed 16 February 2012

None of the Directors who served during the period had any interest in the shares of this or any other group Company.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Employees

Details on the number of employees and related costs can be found in note 3 to the financial statements on page 9.

Auditor

During the period Deloitte LLP were appointed as auditor of the Company.

Deloitte LLP have indicated their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be deemed to be re-appointed for another term in the absence of an Annual General Meeting.

BY ORDER OF THE BOARD



Director **DARWIN PICKETT**
12 June 2012

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HELIX ACQUISITION LIMITED

We have audited the financial statements of Helix Acquisition Limited for the period from incorporation on 3 November 2010 to 31 March 2012 which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its loss for the period from incorporation on 3 November 2010 to 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Clark FCA
 Andrew Clark (Senior Statutory Auditor)
 for and on behalf of Deloitte LLP
 Chartered Accountants and Statutory Auditor
 London, United Kingdom
 12 June 2012

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Profit and Loss Account

For the period 3 November 2010 to 31 March 2012

	Note	3 November 2010 to 31 March 2012 £m
Turnover		-
Operating expenditure		-
Operating result on ordinary activities before interest		<hr/> -
Interest payable	5	(75.8)
Interest receivable	5	75.5
Loss on activities before taxation		<hr/> (0.3)
Taxation	6	-
Loss for the financial period	12	<hr/> <hr/> (0.3)

All activities of the Company relate to continuing operations. No activities were discontinued during the period.

There is no difference between the reported loss and the historical cost profit and loss and accordingly no statement of historical costs profits and losses has been presented.

There are no gains or losses in the period other than the loss for the period, and therefore no separate statement of total recognised gains and losses has been presented.

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Reconciliation of movement in shareholders' funds

	3 November 2010 to 31 March 2012 £m
Opening shareholders' funds	-
Loss for the financial period	(0.3)
Closing shareholders' deficit	<u>(0.3)</u>

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Balance Sheet

As at 31 March 2012

	Note	31 March 2012 £m
FIXED ASSETS		
Investment	7	-
CURRENT ASSETS		
Debtors: amounts falling due within one year	8	27.6
Debtors: amounts falling due after more than one year	8	567.1
Total debtors		594.7
Cash at bank and in hand		1.1
		<u>595.8</u>
CREDITORS: amounts falling due within one year	9	(27.8)
NET CURRENT ASSETS		<u>568.0</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		568.0
CREDITORS: amounts falling due after more than one year	10	(568.3)
NET LIABILITIES		<u>(0.3)</u>
CAPITAL AND RESERVES		
Called up share capital	11	-
Profit and loss account	12	(0.3)
EQUITY SHAREHOLDERS' DEFICIT		<u>(0.3)</u>

These financial statements were approved by the Board of Directors on 12 June 2012 and are signed on its behalf by:

DARIN PICKETT
Director

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Notes to the Accounts

Period from 3 November 2010 to 31 March 2012

1. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard ('FRS') 1 (Revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent Company which has produced a group cash flow statement in accordance with the Standard.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and the results of subsidiaries are reflected in these accounts only to the extent that dividends have been declared.

Going concern

The Company exists to hold investments in its subsidiary undertaking, HS1 Limited, a Company that provides services under certain private finance agreements. At 31 March 2012, the Company had a net liability position and is dependent on the performance of HS1 Limited to repay its liabilities as they fall due. Having due regard to the performance of HS1 Limited, the availability of working capital and the facilities under the loan agreement with the parent undertaking the Directors are confident that the Company has sufficient resources to meet its liabilities. The Directors have also obtained a letter of support from the parent undertaking Helix Bufferco Limited. The financial statements have accordingly been prepared on a going concern basis.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Investments

Fixed asset investments are shown at cost less provision for impairment.

2. Operating result

Fees payable to the Company's auditor for the audit of the Company's financial statements of £2,000 have been borne by another group Company.

3. Staff numbers

The Company had no employees in the period.

4. Directors' emoluments

None of the Directors received any emoluments for their services to the Company.

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Notes to the Accounts (continued)**5. Interest**

	3 November 2010 to 31 March 2012
	£m
Interest payable	
Parent undertaking interest	75.8
Interest receivable	
Subsidiary undertaking interest	75.5

6. Taxation

	3 November 2010 to 31 March 2012 £m
UK corporation tax	
Tax credit on loss on ordinary activities	-
Current tax reconciliation	
Loss on ordinary activities before tax	(0.3)
Current tax at 26.6%	(0.1)
Effects of :	
Losses carried forward	0.1
Total current tax charge (see above)	-

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Notes to the Accounts (continued)

7. Investments

	3 November 2010 to 31 March 2012 £m
At 3 November 2010	-
Additions during the period	-
At 31 March 2012	<u>-</u>

The companies in which the Company's interest at the period end is more than 20% are:

	Country of incorporation	Principal activity	Class and percentage of shares held
HS1 Limited	UK	Rail infrastructure operator	100% of A Shares 40% of B Shares
CTRL(UK) Limited	UK	Dormant	100% of A Shares 40% of B Shares

On 18 November 2010 the Company subscribed to four B shares in HS1 Limited for a consideration of £800 and subscribed to two A shares and four B shares in CTRL (UK) Limited, all at £1 face value.

On 13 December 2011 the Company subscribed to 998 A shares in HS1 Limited for a consideration of £998.

The holders of A shares carry all voting rights with the exception of the rights to appoint Directors which are held by holders of the B shares.

In the opinion of the Directors the value of the investment is not less than the amount stated in the balance sheet.

8. Debtors

Amounts falling due within one year	31 March 2012 £m
Amount owed by Subsidiary undertaking	<u>27.6</u>
Amounts falling after more than one year	31 March 2012 £m
Amount owed by Subsidiary undertaking	<u>567.1</u>

Amounts owed by Subsidiary undertaking in greater than one year relates to a 9.75% loan to HS1 Limited repayable by agreement between both borrower and lender.

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Notes to the Accounts (continued)

9. Creditors: amounts falling due within one year

	31 March 2012 £m
Amount owed to parent undertaking	<u>27.8</u>

10. Creditors: amounts falling due after more than one year

	31 March 2012 £m
Amount owed to parent undertaking	<u>568.3</u>

Amounts owed to parent undertaking in greater than one year relates to a 9.75% loan to Helix Bufferco Limited repayable by agreement of both borrower and lender.

11. Share capital

	31 March 2012 £
Issued, called up and fully paid :	
990 A shares of £1 each	990
10 B shares of £1 each	10
	<u>1,000</u>

The holders of A shares carry all voting rights with the exception of the rights to appoint Directors which are held by holders of the B shares.

On 3 November 2010 the Company issued one A share and four B shares to Helix Bufferco Limited and three B shares to each of Borealis International Investments Corp and Shellecaque Corp. On 17 November 2010 the Company issued a further 989 A shares to Helix Bufferco Limited. All shares were issued at £1 face value.

12. Profit and loss account

	31 March 2012 £m
Balance brought forward	-
Loss for the period	(0.3)
Balance carried forward	<u>(0.3)</u>

HELIX ACQUISITION LIMITED

COMPANY REGISTRATION NO. 07428859

Notes to the Accounts (continued)

13. Parent undertaking and controlling parties

The Company's immediate parent undertaking at 31 March 2012 was Helix Bufferco Limited, a Company registered in England and Wales and the Company's ultimate parent undertaking and the smallest and largest Group in which its results are consolidated was Helix Holdings Limited, a Company registered in Jersey. Copies of the consolidated accounts are available from 73 Collier Street, London, N1 9BE.

14. Related party transactions

Transactions with related parties during the period and balances at 31 March 2012 comprise:

	Recognised (expenditure)/ income £m	Amounts due (to)/from £m
Helix Bufferco Limited	(75.8)	(27.8)
Helix Bufferco Limited - Loan	-	(568.3)
HS1 Limited	75.5	27.6
HS1 Limited – loan	-	567.1

Helix Bufferco Limited is the Company's parent undertaking and HS1 Limited is a subsidiary undertaking.

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REGISTERED AND HEAD OFFICE OF HSI, HSRF AND HOLDCO

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HS1 SECURITY TRUSTEE

Lloyds TSB Bank plc
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ISSUER SECURITY TRUSTEE AND BOND TRUSTEE

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and the Bond Trustee
as to English law*

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Scotiabank